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## GENERAL

### GUOJI ZHANWANG on Developments in International Situation

#### 'Close Watch'

40060076a Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 18, 1988 pp 3-4

[Commentary by Gu Ji 4474 4949: "Close Watch Over New Developments in the International Situation"]

[Text] In recent times, some interesting developments have emerged on the international scene: in the wake of moderating relations between the U.S. and the Soviet Union, the effect of global political and military confrontation on international affairs is diminishing. There are indications everywhere that political solutions are being sought for regional conflicts. For the first time since the War, hot spots around the world are beginning to cool off. Economic factors now play a much greater role in international relations. Nations are paying greater attention to developing economic technologies. It has become increasingly obvious that we are evolving into a multipolar world. The formation of blocs has become an irreversible trend in world economic development. All these seem to indicate that the uneven economic and political developments of the major countries have caused the world structure, which had been dominated by U.S.-Soviet relations since the War, to undergo a pivotal change. How to seize the opportunities offered by this new development in the world situation is the critical issue before us today.

#### The Strategic Change in U.S.-Soviet Relations

The signing of the INF Treaty has marked the temporary end of a postwar era of U.S.-Soviet contention for supremacy by means of nuclear weapons and conventional warfare and the beginning of a new era of moderating relations on both sides. This change in U.S.-Soviet relations has a complex background, but economics is one of the main factors.

After the War, in order to "contain Communism," the U.S. decided to pursue an economic policy to rebuild Western Europe and Japan. The policy not only has produced a much polarized Western world, but has also created America's own competitor. As Japan's economy threatens to dominate the world in the mid-1980's, burdened by its huge military expenditure, the U.S. has turned from the world's largest creditor nation into the world's largest debtor nation. The U.S. leadership role in the Western economy is being budgeted, and if she fails to turn this situation around, her national security and world position will be undermined. As for the Soviet Union, although they have succeeded in matching the U.S. nuclear capability, they are economically weak; they just cannot go on this way. The same economic reason has laid the foundation for the moderating relations between the two countries.

If the INF Treaty is mainly the result of the Soviet's "new thinking" which has brought modification and compromise to their foreign policy, then the U.S., too, is also abandoning her way of looking at the world from a bi-polar viewpoint. At the end of his nine-nation Asian Pacific tour, U.S. Secretary of State Shultz declared, "the era of the superpowers has come to an end. Today, the world is no longer dominated by one or two superpowers; instead, more and more regional centers have emerged. These centers are made up of the economically strong and politically stable nations." The change in attitude of the U.S. and the Soviet Union toward some major issues inevitably will cause both sides to adopt new formats and measures in future contests. For a long time to come, U.S.-Soviet confrontation will primarily be in the form of a contest in comprehensive national strength where economic technology plays the principal role.

As for now, both sides are still trying to further the moderating trend. Especially since their troop withdrawal from Afghanistan, the Soviets have accelerated their moderating trend and have brought greater hope of success to the continuing effort to reach an agreement on arms reduction. At the same time, influenced by the "macro-climate" of U.S.-Soviet moderating relations, there are now hopes for regional conflicts to reach political solutions. Hot spots are beginning to cool off. These developments clearly indicate that the U.S.-Soviet moderation is not merely a strategic adjustment. It is a strategic change. It seems that the basic form of future U.S.-Soviet relations is more definite now: military and ideological elements in U.S.-Soviet confrontation will be reduced. In their contest of comprehensive national strength, the two nations will deepen the already standardized dialogue and seek cooperation and compromise on some international issues and bilateral relations. In view of his age, Gorbachev may remain in office for at least 10 to 15 years. American public opinion has called Reagan "the last president of the cold war era." In the future, regardless of whether the Republican Party or the Democratic Party is in power, America's policy principle toward a moderated relations with the Soviet Union will not change. For the next 10 to 15 years, moderation will, despite everything, set the rhythm for the development of the international situation.

#### U.S.-Soviet Confrontation Will Persist

Although the trend of international situation is moderating, and confrontation between the U.S. and the Soviet Union is less heated, the two nations remain at odds with each other. The competition and confrontation between the two have not ceased, although they have taken a different form. Because the two sides have different systems, many elements which lead to contention for hegemony remain. Today, the Soviet Union still supports the governments in Vietnam, Cuba, and Nicaragua, and the United States is not likely to give up her military support of the Nicaraguan rebels. Thus, the framework of U.S.-Soviet contention for the world has not collapsed despite better relations between the two nations.

While the two countries are focusing their energy on the contest over their comprehensive national strength, a new arms race is underway, although the goal now is to develop the advanced, elite, and sharp weapon systems. Furthermore, the new arms race between the U.S. and the Soviet Union not only is in the research, experimentation, and development of space weapons, but also in using advanced technologies to renovate the existing strategic weapon system and develop a new generation of conventional weapons. Today, the U.S. has achieved significant progress in the development of kinetic energy weapons and direct energy weapons. Not too long ago, for the first time, the U.S. military successfully tested its "Alpha" laser weapon, indicating that the U.S. is about ready to deploy a laser weapon system in space which is capable of striking down targets in orbit. For the past 10 years, the Soviets have also spent more than \$80 billion on research and development of a strategic defense system. At present, they have achieved initial ability to strike down U.S. satellites. In the area of strategic nuclear weapons, the Soviet Union has begun to deploy its fifth generation mobile SS-25 and SS-24 ballistic warhead land-based strategic missiles, and the U.S. highly accurate "Midget" mobile guided missiles also will soon surface, and the MX missile, capable of carrying 20 warheads, will soon be deployed. The arms race will also be reflected in the replacement of strategic weapons. According to Western reports, the Soviet Union is developing nine new types of nuclear submarine, and the U.S. is planning to invest \$100 billion in the next 10-20 years to build new assault-type submarines and anti-submarine airplanes. As for conventional weapons, both sides are widely using fiber optics and laser and other technologies to bring high-tech to the conventional weapons. These trends clearly reveal the fundamental side of U.S.-Soviet relations: they remain each other's adversary and rival. Therefore, we must be on the alert. Furthermore, from the perspective of the world as a whole, in the wake of rapid development and broad application of advanced technologies, the large countries and some newly industrialized countries are planning and building highly efficient and highly effective futuristic military capabilities. The high-tech transformation of conventional weapons, the spread of ballistic missiles, and the possible proliferation of nuclear weapons are suggestions of a new development. Despite the emphasis on economic competition, we must not overlook the new arms race and the arms reduction struggle.

#### **A Trend Toward the Formation of Trade Blocs in the World Economy**

In the wake of the unbalanced economic and political developments of the major countries since the War, and with the emergence of a group of newly industrialized countries and regions, the trend toward a multi-polar world has become increasingly obvious. At present, an important world trade development is the formation of economic blocs; it has become an irreversible trend. More and more countries and regions have set up exclusive regional economic blocs. For example, in early January of this year, the U.S. President Reagan and

Canadian Prime Minister Mulroney signed a U.S.-Canadian Free Trade Agreement. According to this agreement, beginning on 1 January 1989, both sides will eliminate tariffs and trade restrictions on most commodities over a 10 year period to allow free flow of goods between the two nations, paving the road for a unified North American market. The signing of the U.S.-Canadian Free Trade Agreement will make North America the world's largest free trade area. Reagan has touted this "one of the major accomplishments of the 20th century" and a "historic and ground-breaking agreement."

With the unanimous consent of its members, the European Economic Community will set up a unified market in 1992 which will make Western Europe the world's largest market. It no doubt will have far-reaching effects on the world economy.

In Asia, Japan is actively promoting an Asian economic cooperation system. Adding the existing Soviet Union and the East European bloc, in effect, there are four major trade blocs in existence in the world today. Some experts think that the next 10 to 15 years will be an era where the world economy will be dominated by these four major blocs. On the one hand, the countries will become more dependent on each other and infiltrate each other, and to some extent, enhance the moderating trend in world politics. On the other hand, it will be a period of competition and resurgence of protectionism. Unstable factors in the world economy will accumulate, and all nations will face an increasingly menacing economic challenge. For instance, with the signing of the U.S.-Canadian Free Trade Agreement, the U.S. can use it to force the developing nations and other developed countries to open their markets to the U.S. Because this agreement stipulates the elimination of tariffs between U.S. and Canada, it gives the U.S. more room to maneuver when dealing with her major trade partners. The U.S. can use the agreement as a bargaining chip when negotiating with Japan and Western Europe, and this will increase the economic friction between them. Also, with the opening of the unified European market, the Western European countries will become less dependent on the developing nations, and they can take a tougher stand on the North-South dialogue. The concern that the Western European unified market may develop into a concerted European policy toward Japan has thrown the Japanese into a panic, and that is why Japan is actively promoting an Asian Pacific economic cooperation system to create a new regional bloc headed by Japan herself. What is worth noting is that Japan has been using her economic superiority and taking advantage of the present moderating international situation to increase her investments in some Asian Pacific countries and regions so that they can join the ranks of newly industrialized countries and regions by the end of the 1990's. Perhaps by then, instead of four "little tigers," there will be five or six "little tigers."

The dramatic change in the international situation and its development trend, no doubt, have some positive

effects on China. It has given China's "four modernizations" a relatively secured and stable international environment. But we must also realize that the situation as a whole also has an adverse and challenging side. As the international environment changes, we will be facing a even more complicated international situation. In the Asian Pacific region, we will have a quadrilateral relationship among the U.S., China, Japan, and the Soviet Union, and the world economy will be facing four major blocs, and we will encounter more formidable and more intense competitions. Therefore, we must have a sense of impending crisis, a sense of urgency, and a sense of deep concern. We must clearly recognize the grim side and promptly seize the opportunities offered by the new developments in the international situation and try our best to enhance China's economic strength and economic position and assume our proper place in world affairs and play an appropriate role.

#### **'Strategic Studies Abroad'**

40060076b Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 18, 1988 pp 9-11

[Article in a "Special Edition on the Study of International Strategic Issues" by Wu Chunqiu 0702 2504 4428: "On Strategic Studies Abroad—In Honor of the Inauguration of the Shanghai Society for Study of International Strategic Issues"]

[Text] In the broad field of strategic studies, a bright new star has risen from the horizon in eastern China: this is the newly inaugurated Society for Study of International Strategic Issues in Shanghai.

We should clarify that the human race has been devising strategies since ancient times, and strategic studies, too, have a long history. In this area, China has a superb legacy. It is the pride of our people. Yet, modern strategic studies is entirely different from ancient strategic studies. To sum up in a few words, modern strategic studies have developed into a new-found borderline science or comprehensive science. From the perspective of epistemology and methodology, many unique new things have developed. This new-found science was first formulated and developed in the West after World War II. Thus, when we engage in international strategic studies, we should emphasize our own national treasure, but we must also follow the tracks of the new experiences and new results of foreign strategic studies and use their knowledge to enhance our own.

On the whole, the U.S., Great Britain, France, West Germany, Italy, Sweden, and Japan and many other developed countries have, to different degrees, made progress in modern strategic studies. Because of her unique position in the West, the U.S. has become the postwar strategic research center of the Western world. Through the window of U.S. strategic studies, we can catch a glimpse of certain aspects of the West's strategic studies. Even though we do not agree with, or we may even object to, some of the U.S. foreign policies and

strategies, and even though we do not think that the U.S. strategic studies are perfect, much less that her method is suitable for China, we must admit that the U.S. does have some success with the new-found science of modern strategic studies. Based on my everyday observation and plus my personal experience during a visit to the U.S. in 1987, I would like to relate some of my own shallow impressions and thoughts as a way to extend my congratulations to the Shanghai Society for Study of International Strategic Issues on its inauguration, and I look forward to comments from experts and scholars in the field of strategic studies.

#### **"There Can Be As Many Definitions Of Strategy As There Are Writers"**

People who come into contact with Western strategic studies will notice that, despite that the word "strategy" can be found in numerous writings, we do not really know what strategy is, or we should say, what modern strategy is. There are many opinions, but no consensus. This is true throughout the Western world, and it is true in America. As a U.S. strategic researcher said, "there can be as many definitions of strategy as there are writers." This may be an overstatement, but it does reflect the reality of a lack of consensus on modern strategy. Even the definition in the dictionary is not authoritative. For example, the definition of strategy found in the "Military Terminology Dictionary" distributed by the U.S. Department of Defence to the arm forces is not always accepted by the military. This has forced many works on strategic issues to explain the writer's meaning of strategy in a prologue and based all arguments on that, or a glossary is put at the end to let the readers define their own meanings.

Relevant to the definition of modern strategy is the issue of scientific system in modernized strategies. People often ask, one often reads about national strategy, the grand strategy, national security strategy, national defence strategy, national military strategy, military strategy, nuclear strategy, maritime strategy, combat strategy, war zone strategy, and innumerable other strategies in Western writings; but, what is the difference, and what are their relationships? In other words, is there a scientific system in Western strategies? Everybody has his own answer.

In comparison, the Soviet academic circles do have a uniform and systematic strategic concept and scientific system accepted by the country and the military. Soviet schools of thought are known for their rigor. They are in a class by themselves. Then, can we simply assert that the Soviet's strategic studies are superior to the U.S.? We must analyze this carefully. This writer thinks that we cannot deny that the Soviet Union does have superiority in strategic concept and rigorous system, but, if not careful, they may be in danger of being too rigid and dogmatic and prone to reject all new ideas instinctively. On the other hand, the U.S. strategic concept and system are indeed very chaotic (to what extent this has affected the formulation and implementation of U.S. strategy is

yet to be found out,) but we must give credit to their dynamic thinkings, their refusal to be bound by conventions, and their willingness to explore and create. Thus, Soviet and U.S. strategic studies each has its own strong points. They form two different schools of thought in the realm of world strategic studies.

I often wonder if China's strategic studies can be as rigorous as the Soviet's, without being as rigid, and as dynamic as the American's, and without being as chaotic! I believe that we can, and we can become a new school of strategy. China's strategic researchers can accomplish much.

### "I Don't Believe In Any Theory of Strategy"

The knowledge of strategy is an integral part of combat in real life. It has a strong sense of practicality. If strategic study, like many sciences, can be divided into basic theoretical study and applied study, then we can say that the American's applied study of strategy is highly developed. This is their special trait. It fully reflects the traditional no-nonsense spirit of the American people. In the several decades since the War, the U.S. has published innumerable books on strategy. As far as I know, an absolute majority of them are attempts to mastermind a scheme to solve certain realistic strategic problems. The 1950's and 1960's have often been deemed the "golden age" of American strategic studies. During that period, many well-known books on strategy have been written, such as, Brodie's "Strategy in the Missile Age," Kissinger's "Nuclear Weapon and Foreign Policy" and "The Necessity of Choice," [Taylor's] "The Faltering Tone of the Bugel," Herman Kahn's "On Thermonuclear War" and "On Escalation," and so on. We cannot say that these books only deal with facts and have no theory, but we can say that their contribution is not in theory, but in their attempt to solve realistic strategic issues, especially the then extremely acute nuclear war issue. The countermeasures suggested by these books, no doubt, had profound impact on the U.S. government. In John Collin's *Grand Strategy: Principle and Practices*, published in the 1970's, although the author briefly described the general principles of a grand strategy in the first half of the book, he never developed it. In the final analysis, the book is an examination of the success and failure of America's grand strategy in the Vietnam War, and basically it is an empirical study. I hesitate to say that the U.S. has nothing in the way of strategic theory, but we will not find a theoretical treatise of such scholastic value as Von Clausewitz's *On War* or Liddell Hart's *On Strategy*.

Apparently, while U.S. strategic researchers pay special attention to applied studies, they have little interest in the basic theories of strategy. A high-ranking researcher in a well-known institution for strategic studies told me, "I don't believe in any theory of strategy." This, I am afraid, is a typical attitude. As we all know, basic theoretical study and applied study of any science must complement each other, and neither should be slighted. In fact, many American scholars of applied strategic study often cite the

opinions of Sun Tzu, Von Clausewitz, Jomini, Mao Zedong, Liddell Hart and other great strategists. So, they do need some theoretical guidance; but few have worked as hard on strategic theories as the aforementioned masters. As an outsider, pardon my presumptuousness, but if the American strategic researchers pay more attention to exploring the basic theories of strategy, they undoubtedly will achieve even greater success with their applied studies.

### The Functions and the Vexations of the Strategic Think Tanks

The strategic advisory system, represented mainly by the think tanks, plays an important role in the U.S. strategic decision-making system. The think tanks are the outer brain of the strategic decisionmakers. They "produce" the strategic countermeasure programs needed by the decisionmakers, and they form a unique industry which has become one of the symbols of America's scientific strategic decision-making process.

Subsequent to a tremendous surge in the 1950's and 1960's, America's strategic think tanks have developed into a teeming think tank system versed in civil and military matters and many scientific disciplines. According to an encyclopedia on consultative organizations published in recent years, "civil" strategic think tanks alone are numbered in the hundreds, including the many strategic research centers and research institutes set up in universities, such as the Georgetown University Strategic and International Research Center. The larger of these civilian strategic think tanks may employ one to two hundred or even several hundred people (such as the Rand Corporation and the Brookings Institute.) Smaller organizations may have only a few staff or may even be a "mom-and-pop store." Meanwhile, the military, the government departments, and Congress each has its own subsidiary standing advisory organs, that is, the official strategic think tanks. Besides these standing advisory think tanks, the government can organize temporary advisory boards at any time. The "Long-Range Strategic Committee" set up last year by the Reagan administration to study U.S. military strategy for the next 20 years is the newest and most representative example. That committee is staffed by a group of renowned strategists, and after a year's study, it has put forward the new concept of "strategy of disparate deterrence."

The development of strategic think tanks has lifted much of the heavy burden of the strategic decisionmakers. As long as they have the basic qualifications of a decisionmaker, and as long as they are skilled at working with the advisors, that is, the think tanks (including the information system and advisory organization, of-course,) the strategic decisionmaker's job is not all that difficult any more, because their duty lies more in selecting the best policy and strategy and implementing them rather than in formulating policies and strategies. In ancient China, many rulers had long had the idea that they did not have to make their own decisions ("never had to find their own

solutions") and the modern scientific decision-making system is the manifestation of that idea. Adding certain elements to this idea, the U.S. and other Western developed nations no longer have a "successor" problem. Just look at the fact that some U.S. presidents only have served as governors or congressmen and had little experience in leading the country, and some secretaries of defense have never worn a uniform before and had little knowledge of the military or warfare, but they manage to make critical decisions on national and military strategies soon after they get into office. This indeed is food for thought.

In short, the major development of American strategic think tanks has made American strategic decision-making more scientific, but it does not mean that the American government has not made strategic decision mistakes. On the contrary, they have made many mistakes. The Indochina strategy of the Kennedy and Johnson administrations was repeatedly expounded and proven by the think tank system, and the then Secretary of Defence, McNamara and his group of so called "prodigy" were experts in utilizing modern skills to render scientific decisions. Then, why the tragic defeat in Indochina? It actually was determined by factors beyond the control of people's subjective will. We should not blame it all on the strategic advisory system. We can even say that, without the well-developed strategic advisory system, the American government might have made even worse mistakes with its strategic decisions.

The dramatic development of the American strategic think tanks has also brought some problems. Today, these think tanks have nobody to work for. Without new "customers," the result of their studies will be of no use, and they are vexed. Even the official strategic advisory organs of the individual high-ranking military academies are complaining that their work has been ignored. They have heard that although China's strategic think tanks are few in number and have not developed into a system, we know whom we serve, and they are indeed envious.

#### An Indissoluble Bond Between Strategy and History

There has always been an indissoluble bond between strategy and history.

History has provided strategic studies with endless experiences and lessons. Some strategists themselves are great historians. Some strategic writings are also historic writings. This is common in many countries, and the U.S. is no exception. A few examples will demonstrate this fact:

A prolific contemporary scholar-strategic researcher, Professor Edward Luttwak, published more than 10 kinds of books in 12 years (1974-1986.) Many of his works are directly related to history, and the most representative, perhaps, is his *The Grand Strategy of the Roman Empire; From the First Century to the Third Century A.D.*, published in 1977. *The Grand Strategy of the Soviet Union*, published in 1984, looks at the change in the Soviet grand strategy from a historic point of view.

His other essay collection, *Strategy and History*, clearly demonstrates the author's intention to integrate strategic studies with historic studies.

In 1986, the U.S. published a monumental book, *Makers of Modern Strategy; Military Thoughts from Machiavelli to the Nuclear Age*, edited by Peter Paret. This is a history of the development of modern military strategic thoughts from the West viewpoint. This is a newly compiled book based on *Makers of Modern Strategy; Military Thoughts from Machiavelli to Hitler*, edited by Professor E.M. Earle, published some 40 years ago. At one time, the old edition compiled by Professor Earle was hailed as a "modern classic" of Western strategic studies, and it has been reprinted more than 10 times over the years. The book, nevertheless, takes us up to the early part of World War II, and today, it seems outdated and lacks a flavor of the times. The new book, edited by Paret, has kept only some chapters of the original and has rewritten the rest and added new materials on World War II and the postwar period, including Mao Zedong's revolutionary strategy and Kissinger and other's nuclear strategies. Despite the fact that the book contains the separate works of more than 20 experts and groups and lacks unified and systematic exposition, it is rich in material and is fairly complete and can still be regarded a representative work which integrates contemporary American strategic studies and history.

If the representative works mentioned above tend to emphasize military strategy, then Professor Paul Kennedy's monumental *The Rise and Fall of the Great Powers*, published in 1987, is one which looks at the national strategic issues from a wider angle. It appears that the author has benefitted greatly from his previous experience as research assistant to Liddell Hart. He has summarized systematically the history of the rise and fall of the great powers in the past 500 years or so and has clearly demonstrated that the key to a nation's rise and fall lies in the handling of the conflict between economic constructions (including scientific and technological) and national defense. All great powers which have spent so much on the military as to undermine their economic constructions inevitably have declined. The converse means prolonged prosperity. The author points out poignantly that America is on the decline while China and Japan is on the rise. Although many Americans disagree with the author's thesis, we must acknowledge that this book is the latest result of the study of national strategy from a macroscopic historic point of view. It is having profound effects in the U.S. and abroad.

#### Theory of 'Grand Strategy'

40060076c Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 18, 1988 pp 12-13

[Article by Zhao Zongjiu 6392 1350 0046 and Gao Yinkun 7559 6892 0981: "The Art of Using the Sword; The Science of Forging the Sword—A Discussion of the Grand Strategy"]

[Text]

### The Essence of the Grand Strategy

The grand strategy, its concept and theory, has an almost 60 year-old history in the West. It was introduced in 1929 by well-known British capitalist strategist, Liddell Hart, in his representative work, *Decisive Wars in History* (later renamed *On Strategy*.) Although at that time, no major work was published on the subject, it had quite an impact on the field of military theory. With this background, many Western nations picked up on the basic concept and theory of the grand strategy and continued to amplify and revise them. For example, the U.S. has her "grand strategy" and "national strategy" theories, France has a "comprehensive strategy" theory, and Japan has an "enduring overall strategy" theory, and so on. These different theories may have broad or limited ramifications, but their origin can all be traced to Liddell Hart's "grand strategy" theory, and if we analyze these Western grand strategy theories comprehensively, we will discover that, in essence, they are the ultimate defense policy to ensure national security.

First, the impetus behind the formulation of the "grand strategy" is national security. Liddell Hart spent his life studying military strategies. He concluded from many examples of war that, to ensure the lasting overall safety of the Western nations and eliminate the dangers these countries were facing, "pure military strategy must accept the guidance of 'the grand strategy'." "Although I am partial to the term 'grand strategy' and use it often elsewhere, here, I am using the term 'war policy' in its conventional sense." This shows that whether it is the premise of the "grand strategy"—to ensure the lasting overall safety of the Western nations, or the essence of the "grand strategy"—a "war policy," both reflect that the inherent property of the "grand strategy" is the goal to defend national security. Its mission is "to coordinate and guide all of the country's forces to achieve the political goals of war." And because of this, as a defense policy, the grand strategy was accepted first by the British government and was incorporated into the British military field operation regulations in 1935.

Second, the grand strategy theory is constantly being substantiated and developed around the issue of national security. Collins, author of America's well-known "Grand Strategy," pointed out that all strategies, including the domestic or foreign political strategies and the domestic or foreign economic strategies, are directly or indirectly related to national security, and these strategies collectively form the "grand strategy"—"that is, it is the art, and the science, of utilizing the nation's strength in different situations, so that by means of deterrence, military force, direct pressure, diplomacy, trickery and any other imaginable measures, we can control the enemies to various degrees and in different ways as necessary to attain the national security benefits and goal."

It is obvious that the grand strategy will always focus on the issue of national security and that it has a strong military overtone.

### The Core Content of the Grand Strategy

To ensure national security, first we must consider the country's international status, the threats it is up against, and the nature, the intensity, and the source of those threats, and then proceed to define the nation's security goal based on its existing political, economic, military, technological, psychological, and other capacities to do the best to integrate strategic underestimation with the possibility of success of its strategy.

Because war is a contest of politics, economics, military might, technology, psychology, and subjective ability to command and so on, the grand strategy tends to emphasize in particular those measures which directly affect national security in order to reduce the threat of, and prevent, war and to achieve the national security benefits and goal. These measures include military pressure as well as political, economic, diplomatic, and moral pressures. In his *Essential Rules in National Strategy*, retired Japanese Air Force Lieutenant General Minoru Harada advanced the view of "making military war, political war, diplomatic war, economic war, and ideological war the key elements, and putting them to use as a complete system to weaken and consume the other nation's strength." To a certain extent, this brings to light the core content of the grand strategy; however, because the supreme state pursued by the grand strategy is "victory without war," in a comprehensive contest of this kind, the non-military elements should be given maximum use while the military elements should be kept under tight control. It is obvious that the main function of the grand strategy is to provide guidance for reinforcing the overall construction and the utilization of the various capabilities associated with national security.

### The Objective of the Grand Strategy

Because the essence of the grand strategy is to give play to comprehensive national strength to reinforce national defense, many factors are involved, and it takes time for these factors to have an impact on national security. It is a slow process. This characteristic dictates that, in guiding national defense matters, the objective of the grand strategy is not immediate military superiority but long-term overall competitive edge.

Just as Liddell Hart said, "only with the 'grand strategy' can there be sagacious foresight," and "the true objective is not so much to seek war as to seek an advantageous strategic position." Collins went further on this when he said, "what the grand strategy pursues is not victory in war but lasting peace." The essence of this kind of "lasting peace" is protracted peaceful competition. If we study this concept in conjunction with the attributes of today's "peace and progress" and "coexistence and competition," we must admit that the grand strategy's idea of contention for long-term competitive edge already has produced a profound effect on the study and formulation of national defense strategies in many countries.

The Soviet Union, facing the challenge of America's comprehensive national strength and its own domestic situation, is forced to find ways to get out of the passive position in the contest rendered by its past strategic thinking. Since Gorbachev came to power, he has advocated using a "new thinking" to reassess the Soviet's strategic question. He wants to solve the problem of the incompatibility between the country's national security goal and its comprehensive national strength, reduce the excessive burden on comprehensive national strength created by the national security goal, change the phrase "giving priority to national defense" to "building national defense on the basis of economic development," lower the military capability to the level deemed "reasonable and adequate," so that more financial resources can be diverted to civilian economic constructions, and he wants to narrow the difference in comprehensive national strength between the U.S. and the Soviet Union in the next century. Obviously, the Soviet strategy is targeting the next century rather than the present rivalry and is focusing on all-round competition rather than just the arms race.

The U.S., on the other hand, is backed by her economic and technological superiority and intends to drag down the Soviet Union economically in a protracted high-level arms race to out-distance her competitor in the contest of comprehensive national strength and is striving for long-term overall competitive advantage in the next century. The formulation and implementation of the "Star Wars" program best reflects this kind of strategic consideration in the U.S. The focus of America's strategy is also on the distant future and on overall superiority.

In addition, other major countries too share the same feeling. They fear that they may lose their future position in this protracted contest and feel that their security is threatened. Therefore, today, the strategies of many countries are founded not on the so-called art of using the sword but on the science of forging the sword. So, this circuitous strategy of protracted overall competition is the modern day manifestation of the grand strategy concept.

### The Role of Military Strategy in the Grand Strategy

Today, almost all military theorists in the world are inclined to think that there is no better strategy than Sun Tzu's "victory without war," that is, the strategy of achieving the goal without resorting to force or major military force. Therefore, within the scheme of the grand strategy, the role and function of many non-military strategies which directly affect national security have gradually caught people's attention. But this does not mean that military strategy is now playing a lesser role, or that they are less effective so the function of military strategy can be taken over by non-military strategy. This is because the grand strategy, although on a more advanced level, is derived from traditional military strateg. This is also because the basic tenets and basic principles of all strategies came from military strategy. The crux of the matter is that all policies which affect the

defense of national security necessarily are founded on strong military capabilities, and only subsequently do we consider the skillful use of other measures, which are backed by ample military strength. Compared to the non-military elements, military strategy is, and will always be, the most important and basic means to achieve the strategic goals. Thus, without military strategy, there is no grand strategy to speak of.

We should also realize, however, that as non-military strategies begin to play a bigger role, the applicable scope of military strategy theories will change. Military strategy not only is based on actual wars, it also tends to emphasize deterrence. The theory of deterrence in military strategy is being expanded, and the role of strategic deterrence has become more prominent: between 1946 to 1982, in order to achieve various strategic goals, the U.S. has used military forces 162 times as a deterrent. These are often referred to as "military operations without war." This shows that the theory of deterrence in military strategy is a product of the grand strategy, and the theory proves, from a different angle, that within the scheme of the grand strategy, military strategy plays a role which best represents a nation's defense policy. Its dominant role is irreplaceable.

**Japan's Defense Mentality, Military Expansion**  
40060076d Shanghai GUOJI ZHANWANG [WORLD  
OUTLOOK] in Chinese No 18, 1988 pp 14-17

[Article by Wei Quanping 7614 0356 1627: "Japan's New Defense Mentality and Military Expansion"]

[Text] In the 1980's, as her economic strength continues to grow, Japan's national strategy is at a historic turning point. Her defense mentality, an important component of her national strategy as a whole, has also undergone conspicuous change in recent years.

### The Change in Postwar Defense Mentality

Since World War II, Japan has implemented a series of democratic reforms and has drawn up a pacifist constitution. Article 9 of the constitution clearly states that Japan shall "forever renounce war as a sovereign right of the nation or use of force as a means to settle international disputes. And in order to accomplish the above aims, no land, sea, or air forces nor other war potentials shall be maintained."

Yet, as the U.S.-Soviet cold war intensified, the Yoshida administration made separate peace with the U.S. and signed the "U.S.-Japan Security Guarantee Pact" in 1951. Since then, in the lineup of U.S.-Soviet confrontation, Japan has officially become a part of the U.S. strategic track. In 1954, guided by the U.S., Japan formally established its defense agency and self-defense forces and began to rebuild its national defense capability. In 1957, Japan's national defense council ratified the "Basic Principle of National Defense," declaring a need

"to lay the necessary foundation to stabilize the livelihood of the people, amplify patriotism, and safeguard the nation's security," and "to gradually equip the country with effective defensive forces according to the country's ability, condition, and needs." On this basis, Japan formulated and implemented its "1st-4th Defense Capability Reorganization and Preparation Plans" to systematically and gradually expand Japan's defense capability. This situation continued into the mid-1970's.

From the early 1950's to the late 1970's, despite some increase in Japan's defense capability, its scope was limited, and the military buildup basically was for defense. This period was basically dominated by Yoshida's line of "friendship with the U.S. comes first, and the economy comes first, and increase armament gradually and on a limited scope." One of the important characteristics of Japan's national development strategy was to "put the economy ahead of arms," that is, give priority to developing the economy; military affairs must yield to the economy to "build the nation on commerce." Her defense mentality essentially was to maintain defense capability within the scope "permitted" by the constitution and insist on having civilians govern the military and bar the military from interfering in politics and underscore the Japanese-U.S. security guarantee system and strengthen defense capability. The goal is to be able to counter "limited and small-scale conventional attacks," and if Japan should come under large scale attack too strong for her own defense capability, she must rely on America's help, and as for nuclear threats, she must also depend on America's nuclear deterrent capability.

Under the guidance of this defense mentality, successive Japanese administrations have gradually added a series of self-limiting policies. For example, their adherence to a "defense only" policy, the implementation of "the three nuclear-free principles," and their policies of "never dispatch troops overseas" and "limiting the defense budget to less than 1 percent of the GNP."

### The Change in Defense Mentality

However, the international situation changed dramatically in the 1970's. The Soviet' military strength continued to grow. They confronted America's military forces in Europe and stepped up their "southbound policy" and extended toward the ocean. At the same time, the Soviets were rapidly expanding their military might in the Far East, and the sea, the land, and the air forces there made up one-fourth of the Soviet's total military force. Compared to the Soviet Union's military might, Japan's defense capability seemed weak, and as a result, while they exaggerated the Soviet threat at home, the Japanese also began to clamor for stronger defense capability.

Meanwhile, the United States, Japan's protector, was losing her international standing as her economy declined, and in the face of the overbearing Soviet offensive, the U.S. appeared helpless. She began to

emphasize the need for military cooperation with the Asian Pacific allies, demanding, in particular, that the economically strong Japanese play a role more worthy of their economic strength and increase their defense spending, expand their defense capability, and bear their share of responsibilities. On the other hand, the U.S. has always thought that one of the main reasons for Japan's rapid postwar economic expansion to become America's toughest competitor is that Japan has a much smaller defense budget than the U.S. or Europe, and therefore, whenever there is serious Japanese-U.S. economic friction, the U.S. would vehemently accuse Japan of "getting a free ride" in defense.

In the 1980's, Japan has developed into an economic nation of international status. She accounts for 10 percent of the world's GNP; her per capital income tops \$16,000, surpassing even the U.S.; she has the world's largest foreign exchange reserve; her overseas net assets are worth \$200 billion, and Japan is the world's largest creditor nation. In recent years, Japan's export of capital has been increasing rapidly: in 1981, her total export of capital was \$36 billion, but in 1985, it has grown to \$75 billion, more than doubled in 4 years' time, and according to the Japan Economic Research Center's forecast, it will double again, to reach \$155 billion, by 1990. In southeast Asia, in particular, Japan accounts for 33 percent of the region's total investments, first among all nations. In the wake of her rapid economic development, Japan has acquired her independent international economic interests. Maintaining and reinforcing those international economic interests have become the most urgent and most important political, diplomatic, and defense issue for the Japanese.

Her tremendous economic success and her status as the economic superpower and top creditor nation internationally has boasted a "superpower mentality" in Japan. Besides calling herself an "economic superpower," Japan is calling herself the "technological superpower," "banking superpower," and "creditor superpower," displaying an extraordinary air of "great-nation chauvinism." Japanese government leaders and noted figures take great pains to emphasize the need for Japan to contribute to international societies and to the world, to bear the responsibility as a nation, to play a part more worthy of her economic strength, and to actively participate in international affairs. The purpose of former Prime Minister Nakasone's *Final Postwar Political Accounting*, and "International Nation" is to banish Japan's image of a defeated nation and the historic brand left by the occupation period and to establish Japan as a political superpower to match her status as economic superpower. On military matters, although the Japanese government has repeatedly denied any intention of becoming a "military superpower," the fact of the matter is, the gate which had barred Japan's arms expansion by limiting the military budget to 1 percent of the GNP has been broken down. Japan's military budget is second only to that of the U.S. and the Soviet Union. They have taken over from the U.S. the active duty of defending the

1,000 nautical miles of shipping lanes. They are participating in the U.S. "Star Wars" Program. They have brought up the issue of dispatching troops abroad on several occasions and wanted to send minesweepers to the Gulf to "exercise their sovereign right." Japan's military expansion, especially her new defense mentality, has caught the attention of the world.

In December of 1984, Nakasone's private consulting organization, the Society for the study of Peace Issues, submitted a report on Japan's comprehensive security guarantee policy. This report reflects Japan's present day defense mentality. The gist of that report suggests that since the latter half of the 1970's, in the wake of changing international situation and Japan's growing national strength, Japan's political, economic, diplomatic, and defense responsibilities in international society have continued to grow. As a result, with a global strategy in mind, Japan must increase her all-round cooperation with the U.S. on defense matters, and at the same time, she must develop defense relations with other allies. The Soviet Union remains Japan's greatest threat, and Japan's goal is to be able to counter the Soviet's non-nuclear attack, and make her own defense system more efficient, and increase the combat capability of the sea, land, air self-defense forces as well as the command system. It underscores the need to replace the old idea of annihilation at the beachhead with the concept of destroying the enemies abroad and keep them away from the homefront. It emphasizes expanding sea and air self-defense forces and increasing air defense and anti-submarine capabilities and speeding up efforts to equip the country with modern weapons. To increase the country's defense capability, it proposes breaking through the "forbidden zone" of defense, especially the rule which limits the military budget to 1 percent of the GNP.

This report clearly shows that Japan's defense mentality has changed dramatically. The change is manifested in the following areas:

1. Strategically, the old regional strategy which emphasized the country's own security has been replaced by a global strategy, that is, they now start out with a global strategy and consider Japan's security comprehensively, from the political, economic, diplomatic, and military aspects.
2. Tactically, the old concept of annihilating the enemies at the beachhead has been replaced by the concept of going overseas to destroy the enemies; thus, they are emphasizing arms expansion and the development of their sea and air armed forces.
3. On the matter of defense, they have increased their cooperation with the U.S. and other allies and have actively taken up their share of responsibilities as a "member of the West," and instead of "devoting to their own defense," they have turned to group defense.

### Accelerate the Development of Military Capabilities

In September of 1985, the Nakasone government upgraded the "Mid-Term Operation Program," originally an internal SDF Agency program, to a defense program of government level and formally ratified the "Mid-Term Defense Capability Reorganization Plan" for 1986 to 1990. The plan clearly raised the issue of arms expansion, and the key to arms expansion lies in increasing the military budget to beyond the 1 percent of the GNP limit. At the end of 1986, the Japanese government eventually raised the military budget for fiscal 1987 to 1.004 percent of the GNP (an increase of 6.7 percent over the fiscal '86 budget) in order to realize its goal. In recent years, Japan's military budget has been climbing annually; it is the fastest growing item in the country's financial budget. Japan's military budget was 3,517,400,000,000 yen in fiscal 1987 and grew to 3,700,300,000,000 yen in fiscal 1988, a 5.2 percent increase over the '86 budget, and fiscal 1989's budget has been set at 3,927,300,000,000 yen, 6.1 percent higher than the '87 budget. What should be pointed out is that Japan's so called military budget does not include her share of military pension for the NATO forces, nor does it include paramilitary expenses and space development funds and so on. At present, Japan's real military expenditure far exceeds the NATO countries, except the U.S., and ranks second among the Western nations.

The increase in the military budget year after year has produced a thriving war industry. The SDF Agency's orders for products from the munitions enterprises have increased dramatically. Take several of Japan's largest military contractors for example: Mitsubishi Heavy Industry Corporation's contract with the SDF Agency in 1986 was worth 291.4 billion yen, an increase of 16.2 percent over the previous year; Kawasaki Heavy Industry Corporation's contracts were worth 144.8 billion yen, an increase of 17.5 percent, and contracts with Mitsubishi Television, Nippon Electric, and Fujitsu and other companies have all risen more than 10 percent.

On 11 June of this year, in a speech entitled "On Japan's Defense," a senior officer from the SDF Agency underscored the need for Japan to strengthen defense capability and increase defense spending. He urged that "Japan should spare no money," clearly demonstrating the intention of the Japanese government to actively expand its military forces. The sea, land, and air self-defense forces have also formulated huge weapon modernization programs to quicken the pace of updating their weaponry. On 21 October, 1987, the SDF Agency made the decision to develop jointly with the U.S. a new generation of FSX-type support fighters to replace the F-1 fighters, and the already deployed and widely used F-4 E J fighters will be improved and updated. It is also equipping the troops with 52 HH-X helicopters, imported from America, to gradually replace the V-107-11 rescue helicopters. The air SDF has purchased 50 missile launchers equipped with 200 missiles and is prepared to purchase another 80 launchers in the early

1990's to replace all of the "Nike-JS" ground-to-air missiles now serving 6 squadrons. The air SDF has also planned to spend \$3 billion to outfit two ballistic missile aviation squadrons. The SDF Agency has officially suggested the need to import aircraft carriers.

Japan is quickening the pace of updating her weaponry and establishing a sharp, first-rate national defense force equipped to fight a modern war. At the same time, she is also actively taking her share of responsibilities in America's global strategy and in the Japanese-U.S. military alliance and playing her part as "a member of the West" and assuming an important role. Since the 1980's, Japan has taken over the sea and air defense responsibilities for the surrounding several hundred nautical miles and 1,000 nautical miles of shipping lanes. This demonstrates the new strategic division of labor between Japan and the U.S. and the expanded scope of Japan's defense: besides protecting her own territorial land, sea, and airspace, Japan has also assumed the responsibility of defending the 1,000 nautical mile of sea lanes from Tokyo and Osaka to 21 ° north latitude. Japan is also responsible for surveillance and blockade of the three Straits. Not only have joint U.S.-Japan military manoeuvres become more frequent, but the scope, substance, and quality have continued to escalate. Japan-U.S. cooperation in military technologies has achieved some breakthroughs: in December 1985, Japan officially agreed to supply the U.S. with new model tote ground-to-air director [as published] technology, changing the old situation where the U.S. had one-sidedly supplied Japan with weaponry and technology. In September 1986, the Japanese government formally decided to participate in America's SDI ("Star Wars" Program) research, signifying Japan's direct entrance into the focal point of U.S.-Soviet strategic contention, openly joining the military alliance of the West, and "expanding into space" the Japan-U.S. military alliance relationship.

Last December, the U.S. and the Soviet Union signed the INF Treaty, and the agreement is now being implemented. To Japan, the INF treaty has not changed the global strategy of either country, nor has it changed the military situation in Asia. On 21 March of this year, in a speech delivered at the Defense Academy, Prime Minister Takeshita cautioned that "containment, which is founded on the balance of strength, is the guarantee of world peace and security and should not be overlooked," and he sought "a defense capability compatible with Japan's national strength." This clearly demonstrates Japan's determination to continue to speed up her military expansion.

#### U.S.-Soviet Contention

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[Article by You Qianzhi 1429 3383 0037: "U.S.-Soviet Contention for Strategic Initiative in Comprehensive National Strength"]

[Text] In recent years, the international strategic situation has changed dramatically. In December 1987, Reagan and

Gorbachev signed the INF Treaty in Washington. Operations to destroy the intermediate range missiles and the verification tasks are successfully underway. Although the missiles to be eliminated comprise only 3 to 4 percent of the U.S. and Soviet nuclear arsenal, nevertheless, for the first time in more than 40 years since the War, the two superpowers actually are reducing their nuclear weaponry. This also shows that instead of contention for superiority in military strategy, U.S.-Soviet contention has shifted to strategic initiative in comprehensive national strength in the 21st century.

#### The Content of Comprehensive National Strength

The U.S.-Soviet shift from the arms race to contention for comprehensive national strength has caused many to focus their attention on the question of comprehensive national strength. The so-called comprehensive strength is a concept formulated by some NATO experts to compare the strength of NATO and the Warsaw Pact. The "kelaiyin [0344 5490 0936] National Strength Formula" reflects this concept quantitatively, and the formula is a valuable tool for assessing a country's strength. Accordingly, national strength = (basic volume + economic capability + military capability) x (national will + strategic goal)

Based on the "kelaiyin National Strength Formula, there are five elements which determine a country's strength:

1. Basic volume: this is made up of the population and the physical size of a country. A country with a population of more than 200 million is given a full 50 points, and a country larger than 8 million square kilometers in area is also given a full 50 points.

2. Economic capability: this is based on the GNP and the completeness of the industrial structure. The GNP is based on the U.S. 100-point score, and the other nations are scored by the difference between their GNP and the U.S.. The industrial structure is divided into five categories: energy, mineral resources, industry, agriculture, and foreign trade. Each category is worth 20 points, with a total of 100 points.

3. Military capability: this is the strategic forces and conventional forces a country has, and is assessed comprehensively in four areas: the effectiveness of the weaponry, the quality of the commanding officers, logistics support, and the quality of organization. The highest possible score is 200 points.

The above three items make up the material base of national strength. The highest possible total score is 500 points.

4. National will: this means the country's organizational ability and spiritual strength. It determines the effectiveness of the above material state of national strength. The

determinant coefficient is 1, and most countries can score between 0.5 to 1.

5. Strategic goal: it reflects the relationship between the strategic goal and the material capability and the country's organizational ability, and the coefficient is also 1, and the countries are rated between 0.5 to 1.

Based on the above method of calculation:

Comprehensive national strength (100 points) = [(100 points) + (200 points) + (200 points)] x (1 + 1)

Based on the "kelaiyin National Strength" Formula, the scores of several countries in 1977 are as follows:

Country	Basic Organization	Economic Ability	Military Ability	Strategic Goal	National Will	Total Score
U.S.	100	174	194	0.4	0.5	421
U.S.S.R.	100	105	197	0.8	0.5	523
Japan	60	46	5	0.5	0.8	144
India	90	4	3	0.3	0.3	58

This table is 11 years old, and things have changed dramatically, but it is still valuable as a comparison and reference.

Through the kelaiyin National Strength Formula, we can see that the main feature of comprehensive national strength analysis is the use of systematic viewpoints to analyze the national strength issue, that is, its comprehensiveness in evaluating and assessing national strength. It looks at the material base side (basic organization, economic capability, and military capability) of national strength, but it also emphasizes national spirit and the political side (national will and strategic goals.) From the perspective of the objective key material elements, it not only looks at the military strength, but also attaches importance to the size of the country, its material resources, and its economic strength which is the basis of national strength. This kind of analysis reminds people that in striving for strategic superiority, one should look at the overall efficacy and not just emphasize the military or economic side. One should consider all sides and enhance national strength selectively, according to the country's actual conditions and the times. In this modern day and age, if a country still risks all in the arms race, it must pay the price of losing its comprehensive national strength. This not only is futile or inefficient, but is also stupid and dangerous. This objective fact is increasingly being recognized by all nations. In this sense, the U.S.-Soviet shift from contention for superiority in military strategy to the race to increase comprehensive national strength is not only a practical move, but is an inevitable step.

#### The Role of Advanced Technology in Comprehensive National Strength

Aiming to develop comprehensive national strength, nations around the world are revising their strategies, fully intending to develop their own economic and scientific technologies and accumulate solid potential to seize the new strategic superiority. Because of this, the U.S. and the Soviet global strategic thinkings have

changed: from the arms race which portends mutual destruction, they have gradually shifted to competition in economics, technology, military affairs, culture, and every aspect of society. As a result, the U.S. and the Soviet Union have reach a compromise to curtail some direct military confrontation so that each side can concentrate on developing its economy and technology in order to overpower the other side with its comprehensive national strength.

Since the 1980's, the silhouette of a high-tech race has become discernible. Skirmishes have already broken out as the nations scramble for the "commanding elevation" in science and technology. It is increasingly clear that the crucial element which makes comprehensive national strength more comprehensive is an advanced technology. Although it does not mean simply that high-tech capability is national strength, it should be clear that with advanced technology, a nation will have the ability to enhance its economic capability, military capability, national will, and strategic goals. Thus, we see a program whereby all nations are trying to develop advanced technologies: in January 1983, India announced the "Declaration of a New Science and Technology Policy." In March of the same year, Reagan announced America's "Star Wars" Program. In November of the next year, the Japanese government formulated the "Basic Policy on the Vigorous Development of Science and Technology." In July of 1985, the European Economic Community advanced the "EUREKA Plan." Obviously, high-tech competition has become the focal point, and the main battleground, of contention for comprehensive national strength. This is a "silent war." In this war, the U.S. is striving to maintain her lead, but in some fields, she no longer has clear superiority. The Soviet Union is America's arch-rival in this high-tech race. Japan is ambitious, and in the economic and high-tech territories, Japan has become a formidable opponent for both the U.S. and the Soviet Union. Admittedly, the Western European countries are behind the U.S. and Japan in the area of advanced science and technology, but they are doing their best to catch up. The developing countries too are

making use of the opportunities extended by the world-wide high-tech competition to develop their own advanced technologies selectively and purposefully. In an era of intense high-tech competition, the people's strategic ideology is greatly enhanced. Studying strategic countermeasures from the high plane of the overall situation has become an issue generally emphasized by all nations. More and more people have come to realize that the high-tech race is not determined by today's victory or defeat but by the ability to seize the strategic initiative in the next century.

Science and technology often find application first in national defense, and their shift to civilian use generates momentum for national economic development. This is the general law of technological-economic development for all nations in the world. Since World War II, the technologies of the developed nations have taken off, followed by continuous steady economic growth. The so-called advanced technology, to a large extent, is national defense technology. Developing national defense science and technology is a costly venture. The success rate of the experiments is low, the risk is high, and the payback period of investment is long. But, as the saying goes, "armament is vital to the nation. It is a question of life or death, the difference between survival and demise. We must be aware." The law of survival of society forces the governments of all nations to invest heavily in the science and technology of national defense. And the experiences of these countries prove that, as long as it is handled properly, investing in national defense technology can kill two birds with one stone: it not only adds to the military capability, but also adds to the economic capability. The successful transfer of defense technology to civilian use can facilitate the advancement and replacement of civilian technology to greatly increase society's productive capacity. It can also give birth to burgeoning industries and restructure the economic sectors and change the product-mix and prompt the development of "soft sciences." Its "quadratic benefits" are high. Many countries have had great success in this area and have effectively enhanced their comprehensive national strength. For this reason, we must analyze in depth the high-tech development programs of the U.S., the Soviet Union, Western Europe, and Japan and pay attention to their development and to the impetus and the impact of these grand schemes.

#### Contention on a Higher Plane

The U.S.-Soviet shift to comprehensive national strength competition does not mean that they have given up the arms race. In fact, all they are giving up is the absolute concentration on arms race. Contention for military superiority will always be the theme for both sides, but this race will be held on a higher plane. In space, the focus of the arms race has moved from the atmospheric layer to the outerspace. The idea of casting a "nuclear spear" and a "space shield" in the "high frontier" is a race to seize the commanding point in space to win the strategic initiative. In technology, the race has shifted from thermonuclear

weapon system to a non-nuclear weapon system based on advanced technologies. Among 28 weapons systems, the U.S. is ahead on 14, the Soviet is ahead on 4 system, and they are even on 10. This demonstrates that there is still tremendous potential for intensifying the U.S. and Soviet race in nuclear and non-nuclear weapon systems, and the battleground is open to many contests. An analysis of the different forms of competition shows that the emphasis of the arms race has shifted from strategic strength to a combination of strategic strength and conventional strength. As we shift away from the nuclear strategy, the status of strategies for limited warfare has been elevated to a new height. The race to expand conventional forces has become more heated everyday. At the same time, despite the birth of the strategic defense system, the race in the quality of the nuclear deterrent capability has not slowed. Thus, the race to increase comprehensive national strength has not meant the abandonment of the arms race. Military capability is an important component of national strength, and although the race in this area will not be as intense as before, it is on-going, albeit in a different form.

#### The Shadow of War in the Next Century

The modification of strategies by countries in the East and the West is revealing a picture of a shift from contention for immediate superiority in military strategy to contention for comprehensive national strength initiative. In reality, this is a race for time, a contest of speed, and a contention for a new sense of strategic initiative in the next century. In this struggle, there is an ambiguous development in the U.S.-Soviet relationship and the East-West relationship: on the one hand, while each is trying to protect its own interests, all nations are seeking moderation and trying to further the dialogue, restrain the arms race, show more willingness to compromise, and be more flexible. On the other hand, the race is intensifying, and contention continues to characterize the U.S.-Soviet relationship. The objective of the race to increase comprehensive national strength remains to be the strategic intent of contending for supremacy. Thus, although today, many factors have contributed to the reduction of real threat of a world war in this century, we must also realize that the impetus behind the advanced technologies and the contention for comprehensive national strength are foreshadowing the resurgence of the factors of war in the next century. We must not celebrate too soon, or lower our guard. We should be vigilant in times of peace, strive to keep up, and welcome the challenge from the "silent battleground."

#### Third World 'Battleground'

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[Article by Chen Hefang 7115 0735 6265: "How the Third World Became the Main Battleground for Contemporary Regional Warfare"]

[Text] Since World War II, although there has not been another world war, there has been continuous localized

wars and regional conflicts. What is worth noting is that an absolute majority of these localized wars have taken place in the Third World, that is, in Asia, Africa, and Latin America. According to statistics, there have been more than 170 localized wars: 86 in Asia, 54 in Africa, and 26 in Latin America. These account for more than 96 percent of the wars. Since the War, no war has broken out in North America, and in Europe, only the war in Greece in the early postwar era can be called a real war, and economically, Greece is still a developing country. In 1987, worldwide, we saw 50 wars and armed confrontation of different scope, affecting one-quarter of the nations in the world, including 21 Asian, 16 African, and 6 Latin American countries. Still no war has broken out in Europe and North America. This phenomenon is very intriguing, and it indeed is an issue worth looking into by scholars of international strategy.

### **The Change in International Relations and the Characteristics of the Third World**

Contemporary regional wars are the result of the development and intensification of various political conflicts since the War. The Third World has become the main battleground for these localized wars because it is where the postwar world conflicts have confluenced, and it is also due to the postwar changes in international relations as well as certain characteristics of the Third World itself.

The Third World is the most changed and the fastest growing region in the postwar era. In the 40 years since the War, more than 94 countries in Asia, Africa, Latin America, and the Pacific region have won their independence from colonial rule. Because of their irreconcilable differences with the neocolonialists, in the course of their struggle for national liberation, war has been inevitable. More typical is Vietnamese people's war of resistance against France and the U.S. which had continued on and off for more than 20 years. Africa's Algerian people fought their war of liberation for seven and half years, and have finally won.

The Third World is the focal point of U.S.-Soviet contention for world hegemony. The center of U.S.-Soviet strategic contention is Europe, but the focal point of their contention is the Third World. The Yalta Agreement has determined the spheres of influence of the U.S. and the Soviet Union in Europe, and because of the postwar development of strategic weapons for nuclear war and the confrontation between NATO and the Warsaw Pact, the two major military blocs, despite the contention between the two superpowers in Europe, neither side dares to risk mutual destruction by triggering war in this heartland, and therefore inevitably they have extended their evil tentacles to the small countries in the Third World where conflicts are numerous and defense is weak. For example, in the 1960's, the U.S. escalated the "special warfare" in Vietnam to a strategic height; in the 1970's, the Soviet Union adopted a "southern offensive" strategy, and in the 1980's, the U.S. is pursuing a "limited repulsion," "low-intensity

warfare" strategy. The superpowers have either extended military aid, each supporting one side (as in the Arab-Israeli War,) or have sent mercenary troops to fight a proxy war (such as Cuba's Girong Beach battle and the war in Angola,) and where necessary, they have taken direct action and brazenly staged all-out invasions (as America's invasion of Grenada, and the Soviet's invasion of Afghanistan.) As a result, there are incessant localized wars in the Third World countries. More than 40 localized wars have broken out in the Middle East since the War. U.S.-Soviet contention for hegemony has become one of the root causes of instability in the Middle East. We can say that from the peripheries of the American or Soviet soil to some hot-point regions in the world, wherever there is a local war, there is the shadow of contention between the two superpowers.

There are many obstinate conflicts within the Third World, and it has become the breeding ground for war. The Asian-African region is the birthplace of human civilization. Historically, many large ancient empires had engaged in continuous military and political struggles in this region and left many racial and political conflicts. The Third World has a strong force of religion and many different religious sects, and religious conflicts are heavily tainted with political overtone. The tactic of "divide and conquer" during periods of imperialist and colonial rules have left many border and territorial disputes and created many new conflicts. Since the declaration of independence by a succession of Third World nations, these conflicts have exacerbated, and mistakes in their handling often have led to war. For example, East Africa's Somalia was divided into five parts under the colonial rule of the Western powers, and this has become the root source of war in the Cape of Africa. In the South Asian subcontinent, at the end of the British colonial rule, two countries, India and Pakistan, were formed based on their religious difference. Since then, there have been three outbreaks of war between India and Pakistan, and today, they are still fighting over the jurisdiction of Kashmir. The conflict between East Pakistan and West Pakistan was resolved by war, creating Bangladesh. Both Iran and Iraq are Islamic countries but are of Persian and Arabic ancestry, and historically, they have always been at odds. Because of dispute over the Arabian River boundary and other issues, they went to war and have been fighting a war of attrition for nearly eight years. Conflicts exist among Arab countries themselves too. For example, there have been border disputes between Algeria and Morocco and between Egypt and Libya. Racial disputes and religious conflicts have led to civil wars and have torn nations apart: for example, the Greeks and Turks in Cyprus and the Arabs and the southern blacks in Sudan have confronted each other in wars. Nigeria's Biafran war is a typical war over tribal disputes. Although the war in Lebanon epitomizes all the conflicts in the Middle East, its domestic source lies in the political system of the religious sects. The many conflicts within the Third World have given outside the

opportunity to step in and interfere and make the wars even more complicated.

### **The Great Suffering Brought to the Third World People by War**

Since the Third World is the main battleground of contemporary wars, the sufferings of war naturally fall mainly on the people of the Third World. Incomplete data indicate that localized war casualties in the postwar era may be as high as 21 million people, 90 percent of which are innocent victims of the Third World. Countless have been injured or maimed. During the Vietnam War, between 1961 and 1975, nearly two million have perished, nearly four million have suffered serious injuries, and 17 million people have lost their homes—this represents one-third of the Indochinese population. In their national liberation war, the Algerian people paid the high price of sacrificing 1.5 million lives. The Iran-Iraq War has lasted longer than World War II, and casualties on both sides have topped 1 million people, and 4 million have lost their homes. In Lebanon, with its mere 3 million-plus population, injuries and death have claimed close to 1 million people during the decade-long war—this represents one-third of the population. During the civil war that last two and half years in Nigeria, the Ibo tribe alone have lost 2 million lives.

Arms and ammunitions expended in the localized wars in the postwar era have exceeded the sum total spent during World War II. Much of the Third World's material resources have been wasted on artillery, and the social economy and living environment have been ruined. The two superpowers, the U.S. and the Soviet Union, use the Third World as the testing ground for their latest weapons and strategies. In the Middle East's October War in 1973, because the U.S. and the Soviet Union were supplying Israel and the Arab countries with large numbers of guided missiles and advanced equipments, in a battlefield with a frontal width of 200 km, the two sides sent in a total of 810,000 soldiers, 1,722 airplanes, and 6,800 tanks, and in the short 18-day war, the two sides lost about 3,000 tanks, more than 600 airplanes, and more than 60 naval vessels. The total material and financial loss was as high as \$10 billion, an average of nearly \$600 million per day, or over \$2,000 an hour. Such an expensive war is unprecedented in the history of warfare. In the Iran-Iraq War, because both sides have been bombing each other's petroleum installations and urban centers, the direct and indirect economic losses suffered by the two sides add up to as much as \$600 billion. It would take at least a decade to rebuild the two countries. Besides causing a lot of civilian casualties, the Soviet invasion of Afghanistan has produced five million refugees in exile, more than one-quarter of the Afghan population. The Vietnamese government's invasion of Kampuchea not only has put Indochina back in the calamities of war, but has put its own economy on the verge of bankruptcy and its people in dire poverty, rendering itself a nation of exporter of refugees worldwide.

In order to fight those localized wars, most Third World countries often have to spend huge amounts of precious foreign exchange to buy weapons overseas. This substantially increases the financial and debt burdens of the Third World nations and causes their economy to deteriorate, their people to become even poorer, and the gap between the North and the South to widen. According to statistics, in the past 10 years, military expenditures of the developing countries have quadrupled. From 1974 to 1985, Third World debts have increased by \$580 billion, \$250 billion of which are attributable to the import of arms from the developed countries. The Middle East is the world's largest weapon importer. Between 1979 to 1983, spending by Middle East countries on arms purchases averaged about \$50 billion per year, accounting for one-third of the world's total arms trade. In 1987, the military expenditure of the Middle East countries equalled 18 percent of the region's GNP, higher than any other region in the world. Report indicates that from 1981 to early 1987, Iraq had spent \$55 billion on imported weapons and equipment, and in the first 6 years of the war, Iraq have borrowed as much as \$65 billion, 3 times the country's GNP in 1979, from abroad. Because of the war, Iran's national defense expenditure has risen from \$200 million in 1980 to \$20.1 billion in 1984, while petroleum revenues, the main source for its financial revenues, have fallen from \$18.8 billion in 1979 to \$8 billion in 1986. In the course of the war, 8,000 of Iran's factories have shut down; prices have risen at least 5 folds. The fact that their economies cannot sustain them any more is the main reason Iran and Iraq agreed to a cease-fire.

If we say that in the early postwar era, in order to liberate themselves, the Third World countries had to take up arms to fight neocolonialism, then today, they must stand up against the superpowers for forcing wars upon them. They must not kill each other and make meaningless sacrifices. This is what this article is about.

Peace and development have become the two main themes in the world today. If the Third World wants to develop its national economy and reinforce its political independence, it must strive for a peaceful international environment. As international relations begins to moderate, and as prospects of resolving regional conflicts improve, the Third World countries must seize the opportunity, put an end to the wars, speed up economic development, and strive to establish a new international economic order. In order to prevent localized wars and eliminate the hidden dangers of war, disputes among Third World nations should be settled by patient negotiations, in accordance with the Five Principles of Peaceful Coexistence. Internationally, the responsibility and function of the United Nations to maintain peace and security should be augmented. Concurrent with drastic reduction in nuclear weapons, conventional armament should gradually be reduced too. Regional economic cooperation and political contacts should be vigorously developed, consultative dialogues and crisis-control mechanisms should be forged and perfected to achieve the goal of regional stability and world peace.

**Article Urges Preservation of Existing Detente**  
*HK0711151588 Beijing SHIJIE ZHISHI*  
*in Chinese No 20, 16 Oct 88 pp 4-5*

[Article by Xie Xiang 6200 5046, director of the Institute of Soviet and East European Studies of the Chinese Academy of Social Sciences: "The Footsteps of Change in History"]

[Text]The world is entering a new stage in history;

Where the West, with a completely new image, becomes an important component of detente;

Where detente becomes an urgent requirement for reforms in the East;

Where developing countries are vigorously pushing for detente in the name of survival, development, and democracy;

Where detente itself faces a formidable challenge.

When one is in the midst of turbulent historical developments, it often isn't easy to hear distinctly the footsteps of change in history. For instance, we have made very few evaluations of three major international events that took place in the 1980's, namely: The overall revival of U.S. national strength, the introduction of profound reforms in the Soviet Union, and the cessation of hostilities and the start of peace negotiations between Iran and Iraq. Actually, these three major events explicitly reflected the following: The successive entry in the late 1980's of the West; East; and the developing countries represented by the United States, the Soviet Union; Iran and Iraq, into a new phase in their respective historical development processes. During this period, the search for dialogue and detente in the international arena became a popular and common aspiration of all countries in the world community. This is one of the most important global factors leading to overall detente in the current international situation.

**Let us first look at the West. In the first half of the 1980's, the West had already attained a high degree of development and relative perfection of the capitalist system.** Having overcome the after-effects of the Vietnam War and recovered its economic might as well as its self-confidence, the United States provided an enormous impetus for the realization of the above-mentioned achievement. While serious problems still exist in the West, such as the huge U.S. budgetary and trade deficits and Japan's excessive trade surpluses, the capitalist system at its present stage has shown itself fully equipped with the inherent capacity and potential to deal with these problems.

The capitalist system of the eighties possesses completely new features, and is different from the capitalist systems in the days of Marx and Lenin. Having suffered successive blows in this century, Western capitalist states have also learned their lessons, which included World War I, the Depression of the twenties and thirties, World War II in the thirties and forties, the Korean War in the fifties, the social and political crises of the sixties, and the Vietnam War and oil crisis of the seventies. As they went through this process, the Western states discovered various flaws and defects in their own system. They were able to overcome these flaws, albeit at a high cost, and proceed to a new phase of development.

This new phase is measured by: **An unprecedented level of development in new technology and a high degree of harmony in social interaction.** It also has three distinctive features: One, relative stability in the internal economic and political structures of each country has made the eruption of serious internal crises a remote possibility, and the spread of such crises an even more remote possibility; **two**, relative harmony in the political, military, and economic relationships among the Western countries, and the soundness of corresponding regulatory mechanisms make the outbreak of hostile clashes arising from certain causes (such as U.S.-Japan friction on economic issues) quite unlikely; **third**, the West has also taken a cautious approach insofar as participation and intervention beyond its periphery. It refrains from injudicious provocation or uncalculated direct involvement in conflicts. As far as international affairs are concerned, it is widely acknowledged by the West at this stage that mutual massacre is injurious to all parties concerned; that direct confrontation with socialist countries poses as much risk to oneself as to the other party; that hasty involvement in the domestic conflict of developing countries may evolve into a sticky affair from which disentanglement will become a difficult task.

Therefore, with the entry of the West into this new stage of development, the factors in favor of stability and detente in international relations are subsequently strengthened and reinforced. The West has begun to play an important role in maintaining stability and detente in international affairs.

**Let us now look at the East. In the mid-1980's, the East began to carry out a comprehensive and thorough reform and rectification of the socialist system.** Prior to this, limited reforms carried out in the East had either vanished into thin air or ended in failure. China was the only country actively engaged in reforms. However, the ascent of Gorbachev changed the picture. A wave of reforms has surged through the Soviet Union since 1985. As a result, among the countries in the East, it was China and the Soviet Union which became engaged in "a duet of reforms." The introduction of reforms in the Soviet Union has increased the momentum for reforms in the East. Under its influence, a new round of reforms was initiated in East European states, whipping up a "chorus" of reforms in the East.

At this stage, it is generally accepted in the East that Stalinism and the Stalinist model, which characterized the preceding period, have become a mechanism obstructing the growth of society. The second-generation communists of these countries are exploring the image and structure of the socialist system.

There is a solid foundation for implementation of reforms in the East as the impetus comes generally from within each country, or specifically, from the intrinsic demands posed by economic and technological developments in each country. In other words, it comes from the most fundamental contradictions between the force of production and the relations of production. Moreover, the reforms have been propelled to varying degrees by a movement to emancipate the mind. Consequently, they have gone beyond spontaneity and have become a conscious social revolution.

Detente in the international situation is an urgent prerequisite for reforms in the East. On the one hand, the East needs to discard to the greatest possible extent the burden of an arms race with the West in order to ensure the supply of necessary inputs for a healthy and normal economic system. On the other hand, the abundant capital, advanced technology, and other progressive fruits of civilization that are available in the West are urgently needed for the implementation of reforms in the East. Obviously, international detente will enhance the availability of these materials.

The above-mentioned features of the East at its present stage forcefully promotes stability in the international situation. In other words, **the East today serves as an important impetus and pillar for detente.**

Next, let us look at the conditions in the developing countries. Since the late 1980's, a great majority of these countries have come to regard survival, development, and democracy as the highest interests of the state. **Once accepted only by a handful of developing countries, this principle is now universally recognized.**

The developing countries, as a group of newly emerging countries, have travelled a tormented road. After comparative success in realizing the historic mission of national independence, most countries failed in the three new historic missions of survival, development, and democracy. While one category of countries did manage to achieve moderate success in addressing the question of national survival and to attain relative progress in economic development, they also incurred heavy debts in the process. At the same time, the question of political democratization was not properly resolved. A second category of countries became so consumed by the question of simple survival that it could barely deal with national economic development and political democratization. The third category is in the worst lot. Relegating survival, development, and democracy to secondary position, these countries made factional differences, ethnic conflicts, territorial disputes, and even the export

of certain radical ideologies as their principal objectives; they also had no qualms about resorting to violence to attain their ends. To accomplish these unrealistic goals, these countries often consciously or unconsciously became dependent on a certain country or countries. In the end, they themselves became the pawns of the great powers, gradually evolving into an unstable factor and becoming a "hot spot" or "warm spot" in the world.

Whether it is factional differences within a developing country or a conflict between two developing countries, a common denominator stands out and that is: Neither of the belligerent parties could hope to fundamentally alter the proportion of forces and could only continue down the road of confrontation and consumption with no hope of victory for either side. This is a catastrophic situation. Fortunately, in the late eighties the leaders of these countries have begun to see the light. After all, the trend toward world progress is irresistible. Pragmatism is spreading around the world rapidly like a breath of fresh air, injecting hope into scores of trouble-ridden developing countries.

**The number of developing countries gathered under the banner of survival, development, and democracy in 1988 is unprecedented. Such a momentous transformation occurring in the developing countries provides a strong driving force for detente in international affairs.**

Under the joint efforts of the West, East, and developing countries, a new chapter is being written in world history. The world is entering a new period of detente, one which is different from that of the 1970s. The Third World did not participate in the detente of the seventies, which was the reason for its obvious vulnerability. Today's detente is also different from that of the late fifties and early sixties. At that time, both the driving force for detente and the mechanism for the maintenance of detente within the East and the West were insufficient and not sound. Hence, the first detente collapsed after a short while.

Comparatively speaking, the foundation for detente today is solid while its structure is also stable. **The problem at present is that the mechanism for detente could be further improved upon. Since it does not exist in a vacuum, it confronts numerous tough challenges.** There are at least three major issues that must be seriously contemplated.

The first is the question of economic disputes among the Western states. In the short run, the economic contradictions among the United States, Japan, and Western Europe are not likely to develop into a serious conflict within the West. However, if a certain external force were to take undue advantage of these economic contradictions, instability in the international situation could possibly ensue. The weak link is Western Europe, but it is the Soviet Union that has to undergo the test. Western

Europe and the Soviet Union should carefully consider the qualitative and quantitative limitations in the development of bilateral relations.

The second is setbacks in the reform process in the East. It is inevitable that the Soviet Union, Eastern Europe, and China will be confronted by various problems as they carry out reforms in their respective countries. This poses a big temptation to the West. For instance, the ethnic problems in the Soviet Union and the economic crises and political instability in some Eastern European countries provide extremely good opportunities for the West, notably the United States, to "make a score." In this regard, the will of the United States is under a big test. If the United States acts injudiciously, it could directly jeopardize international stability.

The third is domestic troubles in developing countries. These troubles could "bring back" the big powers, which could not resist the temptation.

It is imperative that the international community make conscientious and positive efforts and strive to establish an advanced regulatory mechanism for international detente in order to ensure that the existing detente will survive all kinds of challenges. This regulatory mechanism may be composed of four parts: The first is a regulatory mechanism among the superpowers. The second is a regulatory mechanism among groups of states. The third is a regional regulatory mechanism. The fourth is a United Nations regulatory mechanism. Up till now, only the first mechanism is relatively complete. It not only has guaranteed meetings between heads of states, between foreign ministers, and between military officials, but also includes such measures as exchange visits, inspection tours, checks and supervision, and such means as hotlines and anti-nuclear risk centers. Finally, it exercises the binding effect of treaty systems. The experience accumulated by both the United States and the Soviet Union in this regard is worth studying.

**If the international community consciously sets up an international regulatory mechanism to maintain detente, then this existing detente could be preserved for at least 20 years.**

## **SOUTHEAST ASIA/PACIFIC**

### **International Conference Discusses Asian-Pacific Security**

40050082 Hong Kong LIAOWANG OVERSEAS  
EDITION in Chinese No 44, 31 Oct 88 pp 28-29

[Article by Huang Sixian 7806 1835 6343: "Promote the Comprehensive Security of the Asian-Pacific Region: Sidelights on the Symposium on Asian-Pacific Peace and Security"]

[Text] The Asian-Pacific region is vast, populous, rich in resources and has more "hot spots" than any other area of the world. Although the region has achieved economic

prosperity and high economic growth rates, development registered by the countries of the region has been very unequal, relations among the countries are complex, and there are more contradictions and conflicts among the countries than in any other area of the world. Events in the region are having a growing impact on world peace and security and thus are closely watched by the rest of the world.

The Symposium on Asian-Pacific Peace and Security, which concluded 20 October and was jointly sponsored by the Pugwash Conference on Science and World Affairs and the Chinese People's Association for Peace and Disarmament, carried on a lively discussion of the major issues affecting the peace and security of the Asian-Pacific region. During the discussions, 50 scientists and scholars from 13 countries voiced their personal views, learned from each other by exchanging ideas, delivered 26 papers, and raised suggestions on how to promote regional security.

Participants in the symposium expressed the view that, like other areas of the world, the Asian-Pacific region has experienced gratifying changes, tension in the region has eased, confrontation has given way to dialogue, some of the region's "hot spots" have cooled markedly, and conditions have stabilized. Nevertheless, destabilizing factors still persist in the region. These factors include the military confrontation in the region between the two super powers, the constant occurrence of regional military conflicts, and instability in some countries resulting from domestic struggles for democracy or from other factors, and the like.

### **The American-Soviet Arms Race Should Be Stopped**

Symposium participants averred that the military confrontation and arms race between the two super powers remains a major cause of tension in the Asian-Pacific region.

During the past 20 years, the United States and the Soviet Union have greatly strengthened their military forces and strategic deployment in the region. One-third of the armed forces of the Soviet Union and one-third of all American forces stationed abroad are deployed in the region. The Pacific fleet has become the largest fleet in the Soviet navy, and one-half of America's warships and one-third of her marines are concentrated in the Pacific. During this period, the Soviet navy and air force have advanced southward and obtained Cam Ranh Bay, which is strategically important, while the United States has strengthened her military forces in Japan and South Korea. Mr Clements [KELAI MENCI 0344 5490 7024 5412], a scholar from New Zealand, noted that the tension caused by the frequent military exercises conducted by the Soviet Union and the United States in the North Pacific subjects that region to the constant danger that an accidental conflict might erupt there.

Many participants expressed concern over the constant growth in Japan's defense expenditures in recent years. These participants stated that domestic and external pressures are driving Japan toward greater militarization. The United States has played a particularly active role in urging Japan to increase her defense expenditures, and the Japanese right-wing elements hope their country will obtain a political and military image that is commensurate with her economic might. Participants noted that the six or seven percent annual growth in Japan's armaments runs counter to the trends in other countries of the world, which are reducing military expenditures and armaments.

Some participants noted that, although European security issues have become the focus of arms control talks, security in the Pacific has not been stressed, which is most unfortunate, for the Pacific clearly needs to control arms even more than does Europe, which is much more stable. These participants argued that, to achieve peace and security in the Asian-Pacific region, we must put a complete stop to the arms race and effect true and complete disarmament. Regrettably, although the Soviet Union and the United States signed the INF Treaty, thus making gratifying progress toward nuclear disarmament. The weapons that were eliminated by this agreement represent a very small portion of the Soviet and American nuclear arsenals. And the arms race between the two countries has by no means abated; though the quantity of arms has been reduced, the quality continues to improve, and now the race has been taken into outer space. The two sides maintain huge fleets and are vying for naval supremacy in the Pacific, and many of their warships carry various types of nuclear weapons. Thus the Asian-Pacific region urgently needs to oppose naval arms races and to get the two super powers to withdraw their warships from the Pacific.

During the discussion, a handful of scholars proposed that the Helsinki model be employed to resolve Asian-Pacific security problems, but this proposal was opposed by the majority of the symposium participants who pointed out that efforts to promote security in the region must take into account the unique cultures and political systems of the region. These participants argued that Asia and Europe differ greatly. For example, in Europe two great military blocs confront each other, a situation that does not obtain in Asia. And European Security Conference talks are possible because all parties thereto agree that territorial and other major disputes do not divide the countries of Europe, whereas Asia is plagued by territorial disputes and many other thorny problems. Thus, these participants argued, the Asian-Pacific region cannot copy the Helsinki model and instead should seek to resolve its problems in accordance with its own characteristics. These participants also suggested that a forum be established to discuss, at regular intervals, Asian-Pacific peace and security and other related issues.

### **"Hot Spots" and Conflicts Should Be Cleared Up as Quickly as Possible**

Except for the southern African and Central American crises, the major hot spots of the world are the Kampuchean problem, the Afghanistan problem, the Middle Eastern problem, the Iran-Iraq war, and the Korean problem, all of which are in Asia. These conflicts inflict great harm on the people of the countries involved and seriously threaten the cause of peace both in this region and throughout the world. Symposium participants focused their discussion on the Kampuchean problem, stating that Vietnam's invasion of Kampuchea poses a great threat to Thailand and other neighboring countries, has alarmed ASEAN nations, and has undermined the peace and stability of Southeast Asia and the Asian-Pacific region. The key to the resolution of the problem, it was argued, is the complete withdrawal of all Vietnamese troops from Kampuchea as soon as possible. In his speech, Lin Huaxuan [2651 5478 6513], vice chairman of the Chinese People's Association for Peace and Disarmament, asserted that, while focusing on rapid Vietnamese withdrawal, we must seek not only to prevent the Khmer Rouge from seizing power but, even more importantly, to ensure that the Heng Samrin-Hun Sen clique does not monopolize the government, for that would be tantamount to recognizing the *fait accompli* of the Vietnamese invasion. Lin also stated that China favors the establishment of a four-sided coalition government headed by Prince Sihanouk and opposes monopoly of power by or the exclusion of any faction. He averred that China has no ulterior motives in Kampuchea, much less does she seek to establish a sphere of influence there. Instead, China is working hard to promote a just and reasonable resolution to the issue, so that Kampuchea can become an independent, neutral and non-aligned country. And China hopes that the Soviet Union will continue her efforts to achieve a political solution to the problem. Early cooling of this "hot spot" will help restore peace and stability not only to Indochina but to all of Southeast Asia, as well.

Symposium participants noted in their discussions that a number of commendable developments have occurred in the effort to obtain political solutions to various "hot spots." The Soviet Union is withdrawing its troops from Afghanistan, Iraq and Iran are observing a cease-fire and are negotiating, and relevant elements are seeking ways to ease tensions in the Middle East and on the Korean peninsula. All of these developments will help ease tensions in the region.

### **Seek Comprehensive Security**

In discussing the concept of regional security, symposium participants emphasized that security is not limited to political or military security but should be broader. We should elevate economic security to the same level of importance enjoyed by political and military security and seek security in the broadest sense of the term. For Asian-Pacific security cannot be built upon the poverty of the broad masses of people in the region. Much note

has been made of the fact that the region's economic growth rate is higher than the world average, while the continued poverty and backwardness of most people and countries in the region are ignored. Many symposium participants expressed the view that most countries in the region must strive to develop their economies and to extricate themselves from their economic difficulties. Participants also emphasized that the United States and the Soviet Union should play their proper roles in promoting the development of and cooperation in the

region, and Japan should make due contributions in these areas. This development and cooperation should also be rooted in the principle of equality and mutual benefit, rich countries should not oppress poor ones, strong nations should not bully weak ones, and no country should interfere in the domestic affairs or infringe upon the sovereignty of other nations. Only thus can Asian-Pacific economic cooperation overcome the various difficulties of and achieve development for the region.

**Government To Draft Antibureaucracy Law**  
*HK0911042888 Hong Kong LIAOWANG OVERSEAS*  
*EDITION in Chinese No 44, 31 Oct 88 pp 5-6*

[Article by Sun Peisheng 1327 0160 3932: "The Mainland To Draw Up Special Antibureaucracy Law"]

[Text] In recent years, some leading cadres on the mainland caused great economic losses through dereliction of duty and were reprimanded by legal sanctions. We can always find these kind of cases in the newspapers. It is said that the relevant authorities are formulating an antibureaucracy law to impose more severe punishment on officials who neglect their duties.

**Dereliction of Duty Is a Major Reason for the Increase in Serious Accidents Arising From Negligence**

Early this year, there were several serious traffic accidents on the mainland which aroused great concern throughout the country. People even composed a doggerel to point out this strange phenomenon: "Trains kiss each other; airplanes roll over; ships sink deep into the water." In fact, most of the serious accidents arising from negligence that have occurred in recent years, took place in industrial and mining enterprises. The accident rates have risen sharply, and the losses are shocking. In the first half of this year alone, there were 2,381 cases of this nature placed on files for investigation by investigative organs throughout the country. These accidents caused a direct economic loss of 149,210,000 yuan and the death of 1,934 persons. Judging from the overall situation, the main reason for such tragedies is the irresponsibility of some leading cadres or people with relevant responsibilities in performing their work. They neglect their duties, ignore rules and regulations, and take no notice of people's lives or property. Their prominent characteristics are:

1. They are eager for quick success and instant benefit; they take no notice of safety. Quite a number of enterprise leaders only emphasize achieving economic targets and ignore safety in production, and even support business operations against rules and regulations. For example, the "303" gas poisoning accident in the Guangzhou Packaging Material Factory last year left four people dead, five seriously wounded, and one slightly wounded. After the accident, the procuratorial personnel looked through the records of business meetings of the factory director and production management meetings since the end of 1984, but they did not find a single entry about safety in production.

2. They deceive superiors, delude subordinates, and force the workers to work at risk. Also, they are ignorant and care only for money, not for people's lives. At the end of last year, water leaked into the Gangyao coal mine in Juntai Township of Dengfeng County, Zhengzhou City. The accident left 25 people dead and caused a direct economic loss of nearly 400,000 yuan. Leaders of the mine were fully aware that there was a hole near the

secondary lane above the coal mine, and it would be dangerous if they continued to dig forward. But in order to earn money, they kept on ordering workers to dig forward. When the county's safety inspection group inspected the coal mine, they put a board at the entrance of the hole, on which was written: "Gas exceeds limit. No entrance." They used this trick to deceive the safety inspection group. After the inspection group had left, they forced the workers to dig forward again, despite the risk. In order to earn more money, the workers did not report this to the senior staff. Finally, water leaked into the hole and 25 people died.

3. They do not follow regulations, nor do they strictly execute them. Some rules and regulations only exist in form. Supervisors and leaders are apathetic and indifferent so that criminals can take the chance to graft and embezzle the country's property. For example, taking advantage of the chaotic internal accounts management in the Zhuhai Gongbei Branch of the Bank of China, the Branch's accountant, Lin Chenggang, embezzled a public fund of over 2,320,000 yuan in total on four occasions by altering evidence and forging vouchers. The director of the branch, Xue Xu, was not aware of it at all, and did not even look into the matter when somebody reported to him about Lin Chenggang's behavior of making cash overdrafts. It was not until Lin Chenggang absconded with the money that he was arrested.

4. They only want to receive short-term benefits and pay no attention to safety when they lease and contract enterprises. The quarry of the Guangxi Liuzhou City Integrated Construction Material Factory was contracted to one of the factory's workers, Zeng Wei. In order to earn money, Zeng Wei employed cheap labor, and worked against the top-to-bottom leveling mining method stipulated in the state's "Safety Regulations of Construction Material Mines." He organized laborers to mine from the bottom to the top, and in this way the mining area formed into an umbrella shape. When the City's Safety Committee, Public Security Bureau and Labor Bureau, conducted a safety inspection there and discovered that the mining area had formed into an umbrella shape, they ordered them to stop mining immediately, and formulated a remedial plan. After the inspection group had left, Zeng Wei did not adopt any safety precaution measures, but instead organized the laborers to resume work. As a result, the umbrella-shaped rock collapsed; 10 people were crushed to death by the stones and three were seriously injured.

5. They work rashly and without any plan. In particular, when conducting economic and social activities, some persons in charge usually sign contracts carelessly and pay for the goods without investigating the other party's credit status or ability to fulfill the contract; or they may make guarantees at their wish, and cause tremendous losses. Yang Xu, assistant manager of the Urumchi Goods and Materials Company, rashly signed a contract for the purchase of old ships, with the Information

Technology Research Institute of Beijing's China Scientific and Technological Consultation Service Center, and paid 10 million yuan for the goods in advance, without any knowledge of the latter's credit status or the condition of the goods. However, the Information Technology Research Institute of Beijing's China Scientific and Technological Consultation Service Center did not have any ships, nor was it capable of buying old ones. Having received the money, the Center used it for other purposes. When Yang came to know this fact, he did not cease to execute the contract, nor adopt any other corresponding measures to recover the money. As a result, a total of 8,850,000 yuan for buying goods, was unrecoverable.

### **Two Major Difficulties When Investigating Dereliction of Duty**

To a certain extent, the losses caused to the country and the people as a result of dereliction of duty by a few leading cadres far exceeds the losses brought about by corruption and bribery. However, the punishments for dereliction of duty are usually less severe than corruption under the existing law of the mainland. Basically, there exist two kinds of problems: conceptual and legal.

There are quite a number of people in China, including some leaders, who have an inadequate knowledge of the importance and harmfulness of dereliction cases, and the importance of investigating these kinds of crimes. They are confused about the legal and policy limits between dereliction of duty and bureaucracy. They regard dereliction of duty as bureaucracy and an unhealthy trend. They think that "it is not a crime if no embezzlement is involved," and "one should not be punished if he commits crime for the benefit of the public." Others say, "We should give no cause for criticism on reform and the open policy. We should make allowances for some accidents, and treat them as the tuition fee for our lessons."

Because of the above misguided concepts, whenever such cases occur, they will be branded with such labels as "bureaucracy," "unhealthy trends," and "errors in reforms," and punishment will be replaced by party and government disciplinary action. In some cases, they only ask the offender to give a written self-criticism, and transfer him to another post. In some other cases, people try to turn big problems into small problems and small problems into no problems at all.

China's law is imperfect. There are many shortcomings in the legal system; hence, the phenomenon of replacing law by power and words is still serious in some regions and departments. Therefore, some dereliction cases that should be investigated are not. In addition, there also are problems in China's existing legal system. Many people report that judicial organs usually impose less severe punishment on cases relating to dereliction of duty and accidents arising from negligence. The major reason is that the measurement of the penalty is low for these two kinds of crimes as stipulated by the existing "criminal code." The maximum punishment for dereliction of duty is five years imprisonment, while that for serious accidents arising from negligence is seven years. Taking the fire accident in Daxinganling last year, in which 213 people were burnt to death and economic loss totalled 500 million yuan, the person who was responsible for the fire and the person who neglected his duty were sentenced to less than five years imprisonment.

It is reported that the Law Committee of the National People's Congress is working on the amendment of the existing "criminal code" and "law of criminal procedure," intending to formulate new stipulations for the provisions in the criminal code chapter concerning dereliction of duty. At the same time, the relevant parties are preparing to formulate an antibureaucracy law, so that those who neglect their duties will receive more severe punishment.

## NATIONAL AFFAIRS, POLICY

### Direction of Development for Contract Responsibility System

40060064 Shanghai SHIJIE JINGJI DAOBAO in Chinese 12 Sep 88 p 11

[Article by Chen Zhihong 7115 1807 1347, staff reporter, and Mei Xunan 2734 6064 1344 and Song Kejie 1345 0344 2638, reporters from QIYEJIA [ENTREPRENEUR]: "The Direction of Development for the Contract Responsibility System"]

[Text] QIYEJIA [ENTREPRENEUR], a semimonthly magazine, invited over 50 entrepreneurs hailing from all over the country to the Shenyang Aircraft Manufacturing Company to hold a discussion between two teams—south and north—on the direction of development of the contract responsibility system. Participants at the meeting spoke their minds freely and aired their own opinions in an enthusiastic and open atmosphere.

### An Effective Method To Enliven Enterprises

The contract management responsibility system defines the relation between the state and the enterprise in the form of a contract, initiates the separation of state ownership from enterprise management, and enables enterprises to make a promising step toward breaking away from the direct intervention of government organs. By changing the distribution of excess profits between the state and the enterprise and through the relation of interests, the contract system arouses enterprises' enthusiasm for production and management and enables enterprises to have a vigor and vitality unprecedented in the reform. The introduction of risk and competitive mechanisms enables enterprises to feel both external pressure and internal motivation and to move toward the status of independent commodity producer and manager. The contract system spells out managers' interests, thereby helping arouse managers' enthusiasm, and accelerates the formation of entrepreneurship.

Judged from the practice of reform, the contract management and responsibility system has achieved prominent economic and social returns because it meets the basic requirements of Chinese enterprises and the development and management level of productive forces. The contract management and responsibility system is an effective form to enliven enterprises under the circumstances that the ownership relation is yet to be defined, the market mechanism has not been basically established, and the price system leaves much to be desired.

### Serious Challenges Facing the Contract System

The challenge of price and wage reforms. Drastic price changes will result in substantial changes in contracts or even require that contracts be rewritten.

Funds at the disposal of enterprises and their increase have shaken the dominant position of state ownership in enterprises. Although the state still has the ultimate ownership of this part of assets according to policy, it is not considered when calculating contract bases. Therefore, proprietary and managerial rights tend to become one at the enterprise level and, along with the repetition of production expansion, the state will lose its economic basis in some enterprises' contracts.

The challenge of turbulent market environment. The replacement of the old system with the new one is inevitably accompanied by frequent adjustments of policies and various equity relations. Such adjustments will affect enterprises which have implemented the contract system.

The challenge of dragging supplementary reforms. The contract management and responsibility system has been popularized across the nation in a rather short period of time, but corresponding supplementary reforms have failed to catch up. This phenomenon hinders the potential development of the contract system in all fields.

The challenge of stagnant profit growth. Enterprises often have prominent increases in economic returns in the first two years after they adopted the contract system, but it is very difficult for them to make continuous progress in this regard. What is the solution to this problem?

### Tasks for Perfecting the Contract System

1. Clarify the body of ownership. We should replace administrative government organs with "state property management organs" in exercising proprietary rights, change "production management," under which the government controls the enterprise, to "property management," use property restriction for administrative restriction, and make the contractor an economic entity like the contractee which assumes responsibility for property management.

2. Introduce risk mechanism. On the one hand, we should establish a mechanism to offset the risks of managers and all employees. On the other hand, we should establish an insurance fund to cover the liability of enterprises and strive to change the situation in which enterprises assume responsibility for profits but not losses.

3. Implement the contract system at all levels. We should break up the property management responsibility and assign it to all levels so as to share the burden among the public and tie the manager and all employees of the enterprise to the same ship of fate. This can stimulate to the maximum the enthusiasm and creativity of enterprise's manager and employees and provide the motivation of interest and the pressure of risk in all fields needed to strengthen the internal management of enterprises.

4. Improve enterprise's internal labor combination. We should introduce the competitive mechanism to the internal operation of enterprises, stamp out the over-staffed phenomenon, and train a contingent of vigorous and competent employees in commodity competition.

5. Establish managers' competitive mechanism. We should do away with the administrative rank of enterprises and the administrative official's title of factory managers, hire people through public channels, and more importantly, discover talents in commodity competition to make outstanding entrepreneurs stand out in the powerful current of commodity economy.

6. Substantially raise managers' material rewards. We should link entrepreneurs' financial status to their contributions to society, make their income so high that cab drivers and small retailers cannot begin to compare with them, attract the best people of society into the contingent of entrepreneurs, and make entrepreneurship appear as soon as possible on the stage of history.

7. Under the impact of the price reform, the contract system should be adapted to suit the changes of situation and maintain the seriousness of responsibility contracts. Since indiscriminate changes of targets will discredit contracts, under the current circumstances, we may set an index in accordance with such factors as profit increase and decline of the enterprise and link it to contractual targets and managers' income so as to combine the contract system with the price reform in a practical way.

#### The Direction of the Contract System

*Development in the direction of incorporation.* Target contracts signed between the state and the enterprise may and should be developed in the direction of property contracts, and the separate capital account system used in contract enterprises actually already has the embryonic form of state's shares and enterprise's shares in the shareholding system. Especially in large and medium-sized enterprises, state funds and capital at the disposal of enterprises should be guided in a planned and step-by-step manner toward the direction of state shares and enterprise's shares so that the incorporation process of state enterprises is carried out in tandem with the overall progress of economic structural reform. This can achieve the purpose of restructuring the ownership of state property with incorporation, avoid leaving too many man-made traces in the process of incorporation, and enable state enterprises to be incorporated naturally in the process of economic operations.

*Evolution in the direction of enterprise ownership of capital goods.* Perfecting the industrial structure of the whole society is a dynamic process that runs through the entire development period of the commodity economy. It is impossible and unnecessary for the state to own the property of all enterprises in the whole society. Except for those enterprises and industries with a direct bearing on the formation of the macroeconomic environment whose

ownership should be reserved for the state, the state may gradually reduce state ownership in ordinary enterprises and industries by stopping reinvestment and continuing to collect returns on previous investment and let the enterprises have the complete ownership of their property when appropriate. As for those enterprises which should be reduced or eliminated along with the development of the commodity economy, the state may even sell its assets in these enterprises to the enterprises through equal-value exchanges or compensation and let them run their course in the great sea of commodity competition.

*Some enterprise contracts are terminated automatically as a result of enterprise mergers.* Continuous development for all enterprises is only our wishful thinking. The objective reality is that the development of a commodity economy will inevitably cause some enterprises to expand and others to stagnate and contract. The readjustment of industrial structure and enterprise mergers cannot be controlled by human will. Along with the further development of the commodity economy and the evolution of the contract system, enterprises will either merge other enterprises or be merged by others.

*Small enterprises tend to become privately owned.* Judged from the current situation, many small enterprises have been auctioned off to private owners, and this situation will continue to develop in the future. Along with the promulgation and perfection of relevant laws on the management of private enterprises, more small private enterprises will appear and develop. Before the competition and challenge of these small private enterprises, the auction and transfer of small state enterprises will be sped up.

#### Symposium on Price Reform

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[ECONOMICS DYNAMICS] in Chinese  
No 8, 5 Aug 88 pp 10-13

[Article by the Price Research Institute of the State Price Bureau: "Ideas for the Intermediate-term Plan of Price Reform"]

[Text] Not long ago, directors of the Price Research Institute of the State Price Bureau and over 20 provincial and municipal price research institutes held a discussion in Changde City of Hunan Province on ideas for the mid-term plan of price reform and on the question of how to deepen price reform of farm products. The following is a review of the discussion on ideas for the mid-term plan of price reform.

#### I. The Selection of Macroeconomic Policy During the Planning Period and the Understanding of Current Macroeconomic Environment

A major restricting factor of price reform is price increases. The kind of currency policy selected for now and some time to come has a vital bearing on the design of the price reform plan. There were roughly three different views on currency policies.

First, some comrades think that inflation is undesirable. They said that it can cause the following harm: 1) worsening the irrational situation of distribution; 2) causing bank deposits to depreciate, which is not good for the stability of society and the encouragement of savings; 3) causing enterprises to pay less attention to technological progress; 4) creating working capital shortages for enterprises; 5) resulting in more expenditure than income in revenue; and 6) encouraging speculation. Because of these, China's price policy must adhere to the principle that prices remain basically stable and that price increases are kept under one to three percent a year, taking into account such factors as the structural readjustment of prices.

Second, some comrades contend that we should maintain a low level of inflation and that price reform cannot possibly be accomplished by lowering the overall price level or offsetting price increases with price reductions to keep the overall price level unchanged. Because of this, a structural readjustment is bound to cause the overall price level to rise and currency to depreciate. In this sense, price increase has a positive meaning.

Third, some comrades contend that we should maintain a moderate level of inflation. They think that economic growth should be the primary goal of macroeconomy and that if inflation can increase supply, some fiscal deficits, a little more supply of currency, and a little more demand for investment are harmless.

Everyone unanimously agreed that the current macroeconomic environment is on the tight side, but they disagreed on the degree of tightness. Based on the facts that the increase rate of money supply was over 20 percent for several consecutive years and close to 20 percent in 1987, that there is a great gap between the purchasing power of society and the available supply of commodities, and that surplus purchasing power has increased substantially, some comrades contend that although the economy was better than the previous years in 1987, there are still many unstable factors. Some comrades disagreed with this conclusion and think that the gap between the aggregate supply and demand is not very big at present. Their reasoning: 1) The chief part of the substantial price increase in 1987 was the increase of food prices which was attributed mainly to an increase in the cost of supply instead of demand. 2) Although part of residents' savings has the nature of coercion, they are deposited mainly for the purpose of postponing consumption and thus have the nature of accumulation. 3) Considering the fact that drastic changes have taken place in China's economic organization and structure in the past few years, that cash demand has increased rather quickly especially since the appearance of numerous individual households and the implementation of rural household contracts, and that currency circulation is poor because of the backward capital transfer system, a 20 percent increase in money supply should not be considered a particularly serious issue.

In view of the fact that price increase is inevitable for some time to come, some comrades suggest that we give up the formulation of "stabilizing prices" and go for "controlling prices" instead. Their reason is that the formulation of stabilizing prices is exactly the opposite of the goal and actual practice of the government's economic reform and that since the state price index is planned between 7 and 10 percent every year and "stabilizing prices" is impossible, we should tell people the truth. Other comrades disagreed with this view, contending that stabilizing prices is a relative term used in relation to violent price fluctuation and that we need to "stabilize prices" exactly because prices are unstable. However, we should not advocate "stable prices," and it is also difficult to "ensure that prices are basically stable" in reality. Because the concept of "basically stable prices" has a quantitative limit, it is very difficult to say that prices are still basically stable once they are beyond this limit.

## II. On the Mid-Term Goals of Price Reform

One view holds that we should use the price reform goals set forth in the report of the 13th Party Congress as the mid-term goal of our price reform. The reasons are: 1) The central government proposed that we follow objective economic law, bring the regulatory function of the law of value into full play, and take big steps in price reform. If we do so, we will be able to reach the goal model set forth by the 13th party congress after seven years of reform. 2) The adoption of the development strategy of the great international circle and the further opening of coastal areas are bound to push the whole nation, especially the coastal areas, to the international market, and the whole price system and the price management system will have to be tailored to meet the needs of opening up. 3) The reform of other areas in the economic system has been stepped up, forcing the price reform to catch up. 4) Implementing the system of giving workers a fixed amount of subsidy to compensate for price increase can properly unleash the price reform and speed up the change of models.

Another view holds that after seven years of reform we will still be quite a distance away from the goal set forth in the report of the 13th party congress, that the prices of many commodities will still have to be set by the state, and that the state guidance prices used on many commodities will still have much restraint. This view is based on the following judgements: 1) Under the pressure caused by an increase in the overall price level, it is impossible for price reform to make particularly big strides. 2) The transition of interests caused by price reform will worsen the frictions between the new and the old systems and heighten intertwined contradictions, thereby obstructing the smooth unfolding of price reform. 3) The precondition for establishing a new price model is a developed, open, and unified market system and a complete, indirect macro-control system. Since China's current market system is incomplete, overall management ability is weak, indirect regulatory and

control methods are imperfect, it is very difficult to turn this situation completely around in six or seven years. 4) Price reform will inevitably cause prices to go up, thereby affecting people's real income and living standards, and how much can the people endure determines how fast can price reform progress. One of the solutions is to implement the system of giving workers a fixed amount of subsidy to compensate for price increases, but its consequences are unpredictable. If something goes wrong, it will cause an inflationary cycle of wages and prices, thereby making it impossible for the price reform to develop in strides.

### III. Ways To Carry Out Price Reform

There are primarily four different ideas:

The first idea is "regulating, decontrolling, and linking." Here linking means linking domestic prices to international market prices. As for the method of linking, there are different opinions. Some comrades think that linking is to push domestic enterprises to the international market in accordance with international market prices and measure enterprises' economic returns with advanced criteria to force enterprises to improve management, upgrade the quality of products, and become more competitive. For instance, the prices of crude oil and raw materials should use this linking method to force the petrochemical and machine processing industries to look for resources within themselves and tap potential. Other comrades think that different cases should be handled differently. For instance, raw materials, which are mainly imported, should be priced according to international market prices so that their domestic prices will be higher than their international market prices. Raw materials, which are produced at home, should be priced according to domestic production and market conditions; their prices are in general lower than international market prices, but efforts should be made to make them closer to the latter. Since labor resources abound in China and labor prices are low, generally speaking, the prices of energy and raw materials should be slightly lower than international market prices so as to make the products of our processing industry more competitive on the international market. It also helps attract more foreign investors to invest in and build plants in China.

The second idea is "controlling few, major categories, controlling well," and "easing control in all directions." "Controlling few" means exercising necessary planned control over the prices of only very few commodities and allowing the prices of the overwhelming majority of other commodities to be decontrolled and regulated by the market. "Controlling major categories" means keeping the prices of major commodities under control. Only by controlling few, major categories, can we control effectively. Some comrades further explained why decontrol should be considered as the main way. Their reasons are mainly as follows: 1) The purpose of price reform is to establish a price model based on market

regulation. 2) The price readjustment of certain commodities is bound to affect other commodities, and since it is impossible for us to work out a huge, detailed plan for price readjustment, an inflationary cycle will become inevitable if we follow the old path of price readjustment, as proven by practice. 3) Due to the uneven factors existing between departments and regions in the price reform, it is hard to rationalize the price system by readjusting prices.

The third idea is controlling currency, allowing mild inflation, and easing price control. Comrades with this view agreed with the above idea. However, they think that in order to adopt the above idea, we must control currency, allow mild inflation, and unleash controlled prices. They also pointed out that we may choose from five methods to smooth out the price system. They are as follows: 1) Commodity prices are allowed to go only down, not up, and the overall price level declines. 2) Some commodity prices go up while others go down and the overall price level remains the same. 3) A low level of inflation is practiced and the overall price level increases three to five percent. 4) A moderate level of inflation is practiced and the overall price level increases 6 to 10 percent. 5) A high level of inflation is practiced and the overall price level increases over 10 percent. Among the above five choices, the first and the fifth are the least desirable, the second is undesirable because it can stunt economic growth, the fourth has the possibility of existing in the reform although it is not completely satisfactory, and the third is the best choice. So if we keep the money supply under control and create a relatively ideal general environment, we will be able to gradually unleash controlled prices and achieve a better desired results in the price reform.

The fourth idea is called combining "the overall design with regional breakthroughs." Inspired by the coastal economic development strategy, this idea suggests that in making the strategic arrangement of price reform, we should take into consideration regional differences, let the localities have more decision-making power in the price reform, and enable those localities, where conditions permit, to take still greater steps. If we continue to follow the original "vertical design," we will be unable to adapt to the objective situation of future economic reform.

None of the above ideas can avoid the problem of price increase which will inevitably affect people's life; therefore, how to compensate residents is another problem that must be resolved. Many comrades stated their views on this issue, and there were roughly three different views: The first view suggests giving a fixed amount of subsidy for staple foods after price increases. The second view holds that subsidizing staple foods alone is not rational and suggests linking wages to price indexes, namely increasing wages in accordance with the increase rate of prices. The third view contends that the minimum increase of average standard wages should equal the increase of prices and that the maximum increase of

average wages, including bonuses, should equal the increase of prices and labor productivity. Keeping wage increases within this range is conducive to the balance between accumulation and consumption; otherwise, contradictions are bound to occur. If the raise is smaller than the minimum wage increase, it will inevitably cause workers' living standards to decline and the masses to complain; if the raise is bigger than the maximum wage increase, it will cause consumption to swell and economic development to stagnate or it will become the major motive power behind the acceleration of inflation. In view of this demand, we should conscientiously study China's wage system. While implementing the principle of to each according to his work, China's wage system should increase wages as soon as prices go up and at the same time keep the increase rate under control. IV. Coordinating the Mid-Term Plan of Price Reform and the Coastal Economic Development Strategy

On the issue of how to tailor China's price system to the requirements of coastal economic development strategy, some comrades held that only by allowing the price reform of the coastal area to go ahead of the inland area and its price policy to be more relaxed and flexible than that of the inland area can we guarantee a market environment for "large scale importing and exporting." Other comrades contended that the policies of coastal and inland areas should not be too different because if the coastal area goes too far ahead, it will worsen the instability of China's economy, make the price reform of the inland area more difficult, and put the enterprises of coastal and inland areas in an environment of unequal competition. There were still other comrades who said that if the whole coastal area all implements Guangdong's policy and the 200 million people of the coastal area all become a part of the great international circle, then the policy differences between the coastal and inland areas will not last long and the inland area will inevitably follow the road of price decontrol.

How do we handle the relation between the interests of the coastal and inland areas, given that the coastal area implements the policy of further opening up? Some comrades think that the state should treat the coastal and inland areas equally in regard to price policy, let them follow the law of value and carry out exchanges of equal value, abolish the practice of planned commodity transfer between the coastal and inland areas, allow the inland area to adopt the principle of "countering high and flexible prices with high and flexible prices" and exchange commodities with the coastal area at market prices in accordance with the demand of the commodity economy. Other comrades also pointed out that since coastal and inland wage policies are different, it is unavoidable for the coastal area to adversely affect the stability of the inland market after its opening up; therefore, we should not criticize the inland government too much for adopting the policy of limited regional blockade because it has no choice. However, some comrades disagreed with this view, contending that removing

the regional blockade can accelerate economic development, increase income, and thereby eventually help stabilize the market of the inland area.

### **Discussion of Contract Management System at Nationwide Symposium**

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No 8, 5 Aug 88 pp 17-19

[Article by Xin Wen 1823 2429: "Renewed Challenge to the Contract Management System—Notes From the All-China Symposium on Theory and Practice of the Contract Management System"]

[Text] The All-China Symposium on Theory and Practice of the Contract Management System was held at Changchun in June this year, jointly sponsored by the Institute for Research on the Reform of the Chinese Economic System, the economics department of the RENMIN RIBAO, the Federation of Chinese Economics Research Organizations, the Jilin Provincial Commission for the Reform of the Economic System, the Jilin Provincial Center for Economics and Technology Research, and the Jilin Provincial Federation of Economics Study Organizations. Over 300 specialists, scholars, industrialists, and persons from the actual work sector from places all over the country participated in the symposium, which was the largest nationwide symposium ever organized in this line. The main topic of the present symposium was the relationship between the contract management system and the price reform, and discussions were focused on the following questions:

### **I. Challenges to the Contract Management System Posed by Price Reform**

Some comrades pointed out that practice during the initial stage has demonstrated that the contract management responsibility system has to a certain degree transformed the enterprises into participants in the general marketplace, and although the enterprises are not yet completely free from administrative interference by the government, their reliance on the government has greatly diminished. But while the enterprises are busily developing their markets, a considerable amount of their energy still has to be expended on "cultivating friendly relations" with government departments. Due to the current "double-track system" of pricing, the regulatory function of the market has been rendered weak and ineffectual as far as the contract base figures are concerned, and to the extent that market regulation is expressed in these base figures. In addition, the irrational price structure and misleading price signals have further reduced the lucidity of economic activities and added obstacles to market regulation and macroeconomic control.

Fluctuations in commodity prices have the widest direct effect on the profits of enterprises operating under the contract system. But today's price reform had in fact

been generally foreseen long ago, so that almost all management contracts contain the stipulation that if the contracting enterprise encounters circumstances that constitute force majeure during the term of the contract, such contract may be amended or discontinued by mutual negotiation between the two parties. This means that the contract, which originally had come about after some haggling over prices, may now be faced with a new round of negotiations. This is still only a bothersome external and operational affair, which, however, reveals the fact that the original intention of contracting was to evade price reform, i.e. evade the difficult problem in the external operational environment of the enterprise, and as a result enterprises took the road of having the government "revitalize the enterprises." If we want to achieve the objective of having the government regulate and control the market, and of having the market guide enterprise, we have to face the fact that our price structure is twisted and contorted, and that we must resolutely institute price reform. In this way, the current contract management system is not only a matter of amending the base figures, but there is rather the necessity to break out from the framework of having the government "revitalize the enterprises." It is precisely as someone has pointed out, namely that the contract management system is again facing a new challenge. The first test encountered by the contract management system was when "profits were changed to tax." Although there are still certain contradictions between the contract management system and the "profits changed to tax" system, the contract management system, after an adjustment of policies, was able in the end to overcome its difficulties. Whether the contract management system will be able to also smoothly overcome the pricing difficulties is something people are very interested in.

## II. Relationship Between Enterprise Reform and Price Reform

Some people have pointed out that reform of the economic operational mechanism, of which price reform is the primary aspect, and the reform of the microeconomic foundation, of which enterprise reform is the primary aspect, are mutually connected and an interconnected composite of cause and effect, which at the same time constitute the two principal lines of China's economic reform. The two must therefore be well attuned to each other and pursued as mutually harmonizing parts of one composite. Practice of the last few years has fully proven that it is neither possible for enterprise reform to merely bypass price reform, nor possible for price reform to be pursued in isolation. The present price reform is therefore certainly not a negation of the contract management system, as it was generally promoted during the preceding phase. It is absolutely correct if some people point out that the "reform of the price structure is crucial for success or failure of the entire economic structural reform," which is to be understood in such a way that if price reform is not effectively accomplished, it will be impossible for the market mechanism to play its regular role, as it will then be equally impossible to attain the

goal of economic structural reform. However, it would be a misinterpretation to believe that an effective price reform would be an achievement that would at the same time accomplish everything else. Price reform is nothing isolated; if it is to be effective, it must be accompanied by reforms in several other areas. Particularly in order to have the market mechanism, with price as its core component, play its proper role would demand that the microeconomic foundation, i.e. the enterprises, be capable of sensitive reactions to price signals, be able to increase or reduce supply in accordance with the rise or fall of prices for their products, and be able, if faced with rising or falling prices for products introduced into the market, to induce economies in the use of such products or able to find substitute products. If the budgetary restrictions of the enterprises are relaxed, price fluctuations may correspondingly adjust contract base figures, when it will again be impossible for price reform to achieve its anticipated results. If the enterprise system is not remodeled, and enterprises will still remain under the traditional system, then prices, even if straightened out at one time, will soon again become twisted and distorted, and even if decontrolled will soon become tight again.

Some comrades explained the above concept from the angle of international experiences. The reason why price reforms in Hungary and Yugoslavia encountered difficulties was that at the same time as these countries carried out price reform, they neglected the decisive element of enterprise mechanism. The enterprises were in the end protected by the government, especially by local governments, with the result that they became unresponsive to price fluctuations in the market. In order to maintain the temporary prosperity of their enterprises, these countries frequently tried to overcome their difficulties, when price reform caused commodity price inflation, by resorting to borrowing by means of foreign loans. However, when repayment of these loans became due, the whole problem burst open again. In February of this year, Yugoslavia was compelled to freeze prices which it had formerly decontrolled. In an opposite case, Turkey has been able to shunt its economy to a new track since the beginning of the 1980's. The important experience gained from this case is that during the process of price reform they carried out simultaneously a reform of the state-run enterprises, their specific method being: 1) At the same time as prices were revised, loss subsidies to state-run enterprises were abolished, and enterprises were forced to take on responsibility for their own profits and losses. 2) Autonomy of enterprises in their business operations, employment, investment and other such spheres was broadened, and state-run enterprises became capable of withstanding commodity price fluctuations by increasing handling capacity of their staff and workers and by technological transformation.

Some comrades emphatically pointed out that it is unrealistic to simply define economic structural reform as a composite of price reform and enterprise reform,

and, furthermore, to expect to "reach the desired position in one step." One has to be fully aware of the arduousness, complexity, and long duration of China's economic structural reform. The economic structural reform in China faces tasks at four levels. The first is the regulatory mechanism, where the crucial point is the relationship between planning and market regulation. The second is the economic subject, which includes having enterprises change from being concerned about the incomes of staff and workers to a concern for accumulations and profits, having citizens change from a policy of relying on government distributions to a policy of exercising their own initiative in finding income opportunities, and having the government change from concerning itself with production and management to a concern for the investment climate. The third is the market structure, to create conditions that will enable enterprises to do their own marketing, to show flexibility in financial matters, to handle all personnel affairs, and to merge and reorganize. The fourth is the social structure, elimination of interdependences and achieving independence of the individual from the organization, which comprises such problems as social stratification, functional diversification of social organizations, improvement of the government's administrative capability, and defining the sphere of administrative activities of the government, as well as adherence to legal principles by state agencies and institutions, etc. Obviously, price reform alone, without having enterprises, the government, and individuals conducting themselves in a rational way, will not have prices play their proper role. Having only economic subjects conduct themselves in a proper way, without a market organization beneficial for enterprise activities, will leave enterprises unable to actively react to prices, while excellent conduct on the part of enterprises and formation of a perfect market structure will again in its turn be determined by our gradual transformation of the social structure. The task of economic structural reform in China is, therefore, extremely arduous, and its basic clue is the gradual transformation and renovation of China's socio-economic organization.

### III. How To Appropriately Relate Price Reform With Enterprise Reform

It is not sufficient to acknowledge that both price reform and enterprise reform are indispensable. As some progress has by now been achieved in both these reforms, and in the economic climate in which we find them, the question which of the two is to adapt to the other was an important topic debated at the present symposium. Some comrades pointed out that in order to solve the said problem it is necessary first of all to clarify in what respects price reform in socialist countries differs from such reform in capitalist countries. With private ownership of the means of production and highly developed markets, capitalist countries are frequently able to employ some general rules of the market economy, and to carry out rather normal adjustments of macroeconomic control. However, this is not the case with price

reforms in countries with public ownership systems. Price reform cannot here be an isolated affair, it must be based on enterprise reform, it must first have gained a solution to the problem of having enterprises bear full responsibility for their profits and losses and of having developed subjects of market exchanges. Price reform and enterprise reform are therefore not only intertwined but must of necessity have their boundaries delineated in a phased manner. In the first phase, price reform must adapt to enterprise reform and must create the best possible external conditions for enterprise reform. In the second phase, i.e. after responsibility of the enterprises for their own profits and losses will have essentially been instituted, emphasis must be placed in a timely manner on price reform, and the shift in the economic operational mechanism must be accelerated. Comrades who held the mentioned "two-phase" reform concept believed that the present reform is taking "the last steps" of the first phase, when price reform adapts to enterprise reform, as conspicuously manifested in two ways. First, the contract management system functions in a manner that "relies on the old system while developing a new system," and thus promotes the development of enterprise reform. Second, the contract management system induces price reform to make its appearance on the economic stage. The contract management system induced an intensified market orientation of enterprises, and is therefore more insistent in its demand for market development. In their production and business operations, enterprises want markets [shi chang 1579 1034] and not mayors [shi zhang 1579 7022—this is a play on similar-sounding words]. But markets, especially markets for key production elements, are slow in growing, and that creates a dilemma for the enterprises. The core of all market problems are prices, and the demand of enterprises for price reform indicates that we have closely approached the stage when enterprise reform adapts to price reform.

However, some delegates disagreed with the idea of an alternating progression of price reform and enterprise reform. They believe that these two kinds of reforms must proceed simultaneously. Some comrades went even further in pointing out that the present method of studying the problem of reform is still a method of handling one key point during one particular period, counting on it that each particular key point will promote progress in the other areas, and that after a while another key point will be taken in hand, so that each will in turn be given prominent attention. That is the old idea of "once the key link is grasped, everything else will fall into place." Economic restructuring is systems engineering in which the various links are interconnected, and one must not seek out particular breakthrough points, solutions must rather be found for each and every problem.

A conspicuous divergence of opinions also existed among the delegates in the matter of specific methods for implementation of price reform. Some comrades believed: 1) Any decontrol of prices must be conditional,

namely on the condition of having an ample reserve of materials and of independence by enterprises in their handling of profits. Both conditions are nonexistent at present, in particular because enterprises are not independent with regard to their profit configuration, a decontrol of prices could cause increasing chaos in economic activities. 2) The crucial point in price reform is the mechanism of price formation. It is here that a real breakthrough is needed in enterprise reform, with an appropriate profit incentive and an analogous restraint of profits, only then will it be possible to arrive at rational prices. And again, only rational prices can be effective in market regulation. Considered in this way, there ought to be no rush to effect an overall decontrol of prices.

How are enterprises to gain relative independence in the matter of their profit? Some comrades believed that the contract management system can indeed gradually lead to independence in enterprise profit configuration under the conditions of an irrational price structure, and with fixed price parities and the double-track pricing relationship. That would mean on the one hand that the base figures will be determined through open bidding and competition in a "one against one" manner, and that unstandardized elements in prices be abstracted and dropped. It would therefore be possible to pursue enterprise reform under conditions of an irrational price structure. However, it would not be possible the other way round. On the other hand, rigidly stipulated contract base figures with the effect that more profits may be retained in case of excess income, and insufficient income be made good by the enterprises themselves, will allow the enterprises to a certain degree a capability of assuming themselves responsibility for profits and losses. In this way only will enterprises be able to gain independence within the original state-enterprise relationship, and will they gain independence as to their own profits. If, at that time, prices are further decontrolled, not only will prices become rational, but enterprises will be able to accept market regulation of prices in their operations.

Other comrades pointed out that the contract management responsibility system is absolutely essential in order to create a favorable climate for price reform. The contract management responsibility system is better able to bring about an increase of supplies, thus capable of creating favorable conditions for a balance between total supplies and total demand, which is essential to price reform. The contract management responsibility system can faster increase total national income, improve state finances, and have enterprises, staff, and workers more willingly accept price reform; it will thus pave the way for price reform. When adjusting base figures in contract management systems when determining the base figures for enterprises producing goods in short supply, the annual progressive increases in profits turned over to the state are to be held lower than the actually realized annual progressive increases in profits, furthermore the corresponding determination of the enterprise tasks of

expanding production and effecting technological transformation will promote production in sectors producing goods in short supply, so that finally the goal of decontrolling prices will be achieved. This is a new idea of how to pursue price reform. Stopping the continuing currency inflation is an essential prerequisite for maintaining the contract management system and for pursuing price reform. In view of the stated reasons, some believed that price reform has to adapt to the present condition of the contract management system in order to maintain the stability of management contracts with only small adjustments.

Others again voiced the opinion that if the contract management system is maintained in its present form without change, there will be almost no room for price reform. It is necessary to have a contract management system that can meet the demand for price reform and that would be developed in the direction of standardization. As long as prices have not yet been properly readjusted, the contract management system is an excellent method by means of which state-enterprise relations can be dealt with, while still breaking away from the system of administrative commands. The present state-enterprise contract relationships still reflect a vertical subordinate relationship. Contracting is still an administrative way of coordinating. Contracting is therefore merely a transitional pattern of expediency.

Comrades who had been strongly in favor of price reform pointed out that price reform required an excellent environment, one in which total demand and total supplies are well balanced. However, currently the economy is in a rather harsh situation. Early this year some comrades expressed the belief that promotion of the contract management system in 1987 led to an increase in total supplies in excess of total demand, that the strained economic situation had been resolved, and that 1988 will be even more successful. But the situation as from April and May this year reveals that the disparity between total demand and total supply had not diminished at all. On the contrary, inflationary pressure is on the increase. This being so, price reform is facing the threat of steeply rising commodity prices. Under these conditions, price reform must not be deferred, because the strained economic situation will not relax with further delay, but will rather become more serious, and will further reduce the opportunity for reform. However, merely decontrolling prices without a retrenchment of demand cannot possibly be successful, because total demand now vastly exceeds total supply. Since 1984, the excess of total demand increased 11 to 16 percent every year and created a vicious circle of inflation of total demand—financial deficit—excessive issue of currency—inflation of total demand. Under these circumstances, it is necessary to adopt strict measures to retrench total demand. To start out with action against senseless investments in mansions, offices, hotels, and guest houses, and against the illegal gains of large and small profiteers, will not adversely affect "logistics" and will not lead to a lowering of the basic living standards of the masses.

### Scholars Apply Rent-Seeking Theory

HK0311120888 Shanghai SHIJIE JINGJI DAobao  
in Chinese 24 Oct 88 p 2

[Special dispatch from Beijing by staff reporter Fei Xiaodong 6316 2556 2767 and trainee from Xiamen University Xu Zuzhi 1776 6398 0037: "Wu Jinglian, Ding Ningning, Others Apply the 'Rent-Seeking Theory' to Analysis of the 'Bureaucrat Racketeering' Phenomenon"]

[Text] The participants in the symposium held that the state's intervention by policy and administrative control give rise to price difference which in its turn provides "official profiteers" with an opportunity to take advantage. "Official profiteering" is not unavoidable. The solution is to lift the administrative control over microeconomic activities and the restrictions on prices, put the market on a sound basis, and promote competition on an equal footing.

At the moment when "official profiteering" has turned out to be the issue that the Chinese people are most concerned about, the "rent-seeking" theory, as a Western economic theory that can be applied to the interpretation of this phenomenon, begins to draw the attention of Chinese economists. JINGJI SHEHUI TIZHI BIJIAO [Comparative Studies of Economic and Social Structures], a journal with Wu Jinglian as editor-in-chief, sponsored last week a symposium on the "rent-seeking" theory, in which some Beijing scholars participated on invitation.

Will a transition from the centralized economy to the market economy inevitably give rise to corruption? Does the public definitely have to tolerate all kinds of corruption and injustice for the sake of "historical progress"? Focusing on the price difference resulting from intervention by policy and administrative control and on the pursuit of profits arising from price difference, the rent-seeking theory presents an analysis which is quite different from the currently popular views.

According to Wu Jinglian, "Classical economic theories defined rent as pure land rent. In the wake of the development of economics, the definition of rent kept on expanding. In the modern times, rent denotes rent of all elements of production. In all cases, rent derives from the price difference as a result of the fact that the demand for an element has increased whereas the supply of this element can hardly increase due to various factors. In the theory on international trade as a branch of modern economics, especially in the so-called 'public selection theory,' rent is further defined as the income derived from the price difference as a result of intervention by policy and administrative control, say, import quota, issuance of production licenses, price control, or even restriction on the number of people employed by a certain trade, which restrain competition and widen the gap between supply and demand. Since intervention by policy and administrative control can create income,

that is, rent, out of price difference, then it is natural that there will be activities in pursuit of such a rent, namely, the rent-seeking activities. Rent-seeking activities are characterized by the seeking of the privilege of rent earning by legal or illegal means, say, lobbying, backdoor deals, looking for backstage bosses, and so on. Now that the market is far underdeveloped and administrative power is dominating the market in China, one can find in this country such 'rent-seeking' behaviors as illegal resale of allotted goods, quotas, bills, licenses, and so on, with the aim of reaping staggering profits."

In this connection, Wu Jinglian proposed that restrictions on microeconomic activities be lifted, including the removal of the administrative control over the pricing behavior of manufacturers, the lifting of restrictions on prices, the effort to put the market on a sound basis, and the promotion of competition on an equal footing. And this is exactly the basic orientation for the in-depth development of reform in this country.

Ding Ningning noted that the government should exercise intervention in different ways at different stages of economic development; removal of government control needs a well developed market, otherwise decentralization would only lead to the distribution of resources at an even lower level.

Zhou Xiaochuan, Lin Yifu, Guo Shuqing, Lou Jiwei, and Li Qingyuan also aired their own views at the symposium.

### Beijing Stops, Defers Capital Construction Projects

OW0311050588 Beijing XINHUA Domestic Service  
in Chinese 1327 GMT 1 Nov 88

[By reporter Xu Kehong]

[Text] Beijing, 1 Nov (XINHUA)—The Beijing Municipal Capital Construction Commission [JIAN WEI 1696 1201] called together comrades from departments of the party Central Committee and from ministries and commissions of the State Council responsible for capital construction and investment planning for a meeting today to discuss the work of checking the office building, auditorium, and guesthouse construction projects in the Beijing area. Shi Qirong, head of the State Council's work group for checking these projects in the Beijing area, stressed at the meeting: In checking and cutting the office building, auditorium, and guesthouse construction projects, the whole country is following what Beijing is doing, and all localities are following what the central departments are doing. Such being the case, Beijing should take the lead in the country, and the central departments should play a leading role in Beijing in conducting such checks. In checking the office buildings, auditoriums, and guesthouses under construction in the Beijing area, we will strictly comply with the criteria set in the relevant documents issued by the State Council. If a project should be stopped, resolute steps will be taken to

stop it. If a project should be deferred, it will no doubt be deferred. As a first step, we will resolutely stop and defer a number of projects as soon as we can make an accurate decision. In the near future, we will publish a list of the first group of projects to be stopped and deferred.

Shi Qirong, who was in charge of the checks on office buildings, auditoriums, and guesthouses in Beidaihe and Xingcheng, gave an account of the serious problem of the fast growth rate of our country's capital construction investment, which has been out of control in recent years. He said: A sizable part of the rapidly growing capital construction investment has gone to the consumption market, constituting a chief reason for the uncontrollable price hike on the domestic market. It should be noted that checking the office building, auditorium, and guesthouse construction projects is an important task concerning the overall interests of our country, and is a key measure to improve the economic environment and rectify the economic order at present.

Shi Qirong pointed out: In conducting checks, some units have worries of one kind or another. To sum up, they fear that "the honest will suffer," and losses will result. This is unnecessary. The determination of the central authorities is firm and unchangeable. These units should note that checking and cutting some construction projects is a task that may cause losses to certain localities while benefiting the whole. The partial interests of individual units must be subordinate to the overall interests of the country.

Finally, Shi Qirong requested that on the basis of the checks made previously, comrades from various ministries and commissions compile a list of their projects of office buildings, auditoriums, and guesthouses under construction as well as those of their direct and indirect subordinate units. They should submit the list to the departments concerned along with their preliminary opinions in accordance with the guidelines contained in the State Council's documents.

Wang Zongli, vice chairman of the Beijing Municipal Capital Construction Commission, said in his speech: During the past few years, the overextended capital construction front in Beijing has put the construction work in a quite passive position. Construction materials are in short supply, and construction labor is insufficient. Because of the high labor demand, the one million construction workers in Beijing and the 300,000 - plus workers who have come to the municipality from other places are of poor quality. As a result, accidents of one kind or another have occurred frequently. Completion of many construction projects, including key projects, has to be delayed again and again, causing considerable losses. Cutting the overextended capital construction front will make available some of the labor force to ensure the timely completion of key construction projects, thus making it possible to achieve greater results in construction.

## FINANCE, BANKING

### Joint-Stock Systems Advocated for State Enterprises

40060090 Beijing LIAOWANG [OUTLOOK] in Chinese No 41, 10 Oct 88 pp 17-18

[Article by Li Xinyan 2621 2450 1750 and Meng Huan 1322 0822: "How the System of Joint-Stock Ownership Can Be Introduced Into Large and Medium State Enterprises"—passages in boldface as published]

[Text] In its actual process, the implementation of the joint-stock system for enterprise ownership and management, which is favored by many of China's experts and scholars, is gradually advancing from individual and collective enterprises to state firms and from small concerns to large ones. In late August, more than 60 people—including Li Guixian [2621 6311 7639], state councilor and president of the People's Bank of China; Zhang Yanning [1728 1750 1380], vice minister of the State Restructuring of the Economic System Commission; experts and scholars from colleges, universities, and research institutes; and enterprise leaders—attended a conference in Shenyang to discuss the prospects of and specific measures to carry out China's program of transforming large and medium enterprises into joint-stock companies and its effort to establish stock markets.

The participants in the conference expressed the view that, as a form of property organization and a model of enterprise management, the joint-stock system is a product of socialized mass production under a market economy and can serve both the capitalist and socialist systems; that introducing joint-stock systems provides an effective means by which we can advance the effort to invigorate enterprises; and that it is especially important that we establish such systems in large and medium enterprises.

### The Joint-Stock System Can Resolve Some of the Difficulties in Our Current Reforms

Participants in the conference agreed that the joint-stock system can resolve some of the difficulties of our current economic reforms.

Implementing such a system would help clarify equity relationships; would induce the government, like other stockholders, to withdraw to a position as owner and to refrain from direct interference in enterprise management; and would thereby enable enterprises to operate autonomously. The system also stipulates that enterprises possess their own property and that stockholders bear only limited liability for enterprise assets and thus enables enterprises to truly assume responsibility for their own profits and losses. When such systems are put into place, stock-price changes affect the vital interests of stockholders, which places great pressure on and motivates enterprise managers to build up their firms' assets and to improve economic results. Thus the joint-stock

system is an effective way by which we can transform enterprise managerial mechanisms and eliminate short-sighted behavior by enterprises.

Participants in the conference averred that the irrational economic structure and the inefficient use of resources loom as great obstacles to China's economic development. China possesses 900 billion yuan worth of fixed capital, most of which cannot be circulated and used where it is really needed. By fully exploiting and selling off some of this capital, we can enliven it, circulate it and, thus, transform it into a tremendous source of wealth. This is precisely what the joint-stock system will enable us to do, for it facilitates efficient deployment of production factors and social resources. By selling stock, we can soak up idle funds, transform money that is now spent on consumption into capital for the development of production, reduce pressure on markets, and provide a new way for the masses to preserve the value of their savings, thereby enhancing their ability to cope with inflation.

#### **Issuing Securities Can Help Stabilize Financial and Monetary Conditions**

In his speech to the conference, Li Guixian stressed that **encouraging enterprises to issue stocks and bonds and opening securities markets will give us new ways with which to control the money supply and stabilize finances** and will also help to advance reform of China's banking system and to stabilize economic activity.

Li stated that, in analyzing the purchasing power of China's urban and rural residents, we must recognize that this issue cuts two ways. Resident disposable income both provides an important source of funding for economic development and yet poses a great threat to monetary and price stability. Therefore, we must adopt effective measures to defer, diversify, and divert expenditure of disposable income and induce people to change their attitudes; to stop thinking purely in terms of food, clothing, and utensils and appliances; and to start thinking about housing, birth, age, illness, and death, as well as investment. To reduce these contradictions, we must commercialize housing and induce people to buy their own homes, and we must initiate various types of insurance programs and get people to participate in these programs and to establish insurance funds. In addition, we must sell stock in some small, medium, and large enterprises, for this will reduce the state's need to invest and to extend loans and will lighten state and enterprise financial burdens.

#### **Traditional Attitudes of the Past Several Decades Require Change**

Tang Fengyi [0781 0023 5030], assistant editor of the magazine ZHONGGUO GONGYE JINGJI YANJIU [STUDIES IN CHINA'S INDUSTRIAL ECONOMY] argued that **the first thing we must do in implementing joint-stock systems is to jettison the notion that such**

**systems are inconsistent with public ownership.** He asserted that the traditional view equates ownership relationships with equity, whereas these concepts in fact differ. The idea of the system of ownership is a theoretical concept that has been abstracted from a variety of specific patterns of equity, which are precisely the opposite. Equity does not share the features of the concept of productive relations (the system of ownership) but rather addresses property relationships primarily in terms of the specific property that is possessed and the actors who possess that property. Thus the first thing we must do is to change traditional ideas. And we must also recognize that introduction of joint-stock systems will not alter the basic character of public ownership. This is because the state's share of stock will, in its totality, constitute state ownership. Naturally, the rule that state or public shares must comprise the majority of all stock in existence does not necessarily mean that the state or the public sphere must own the majority of a particular company. The rule refers to the share or scope of ownership in society generally, not within a specific region or enterprise.

To implement joint-stock systems, we must enhance people's willingness to invest. Participants in the conference expressed the view that **the biggest difference between stocks and savings or bonds lies in the fact that capital stock cannot be withdrawn or retired but can only be sold or transferred and represents a kind of investment activity.** It is precisely this feature that enables joint-stock companies to retain control over their physical assets and to maintain normal production operations, even as capital stock changes hands.

**In developing joint-stock systems, we must deal with the issue of the existence and role of brokers correctly, according to market-economy theory.** Participants in the conference argued that brokers will be required if we develop stock markets. According to economic theory, prices will find an equilibrium, and profits will be balanced throughout society only when thousands upon thousands of people are able to pursue, within limits permitted by law, opportunities to invest and make money. Thus we must properly deal with the issues of brokers and stock trading, which are bound to accompany the stock markets that are coming to our country. We must not simply ban brokerage and stock trading but rather use legislative means to restrain and control these phenomena so as to protect the legitimate interests of the vast majority of people.

#### **We Must Root Efforts To Implement Joint-Stock Systems for Large and Medium Enterprises in China's Actual Conditions**

Participants in the conference agreed that **pilot testing is especially important for the program to implement joint-stock systems in large and medium enterprises.** These firms form the backbone of China's national economy, so we must invigorate them before we can instill vitality in and fundamentally transform the operational mechanism of the entire economy. Moreover, stock markets are

essential to the development of joint-stock systems, and the only stock that will truly sell is that issued by prestigious large and medium enterprises. However, efforts to implement joint-stock systems in these firms must be rooted in China's actual conditions.

Experts, scholars, and enterprise leaders have set forth three alternative ways by which these firms can implement joint-stock systems.

**First, when new firms are founded in the future, they should seek capital from all quarters and sell stock openly to the general public. Second, when conglomerates spanning a variety of regions, sectors, and systems of ownership are reconstituted on the basis of capital, they should convert their assets into stock, trade this stock among each other, and sell it to the general public. Third, existing enterprises should be transformed by having their assets appraised and converted into stock for sale to the general public.**

#### **Definite Progress Has Been Achieved in Experiments With Joint-Stock Systems**

So far more than 6,000 enterprises throughout the country have instituted joint-stock systems. A number of delegations from large enterprises that have adopted such systems reported to the conference on their experience with the systems, thus providing theoreticians with an empirical basis for their work.

The Jinbei Automobile Corp, Ltd is a large joint-stock company that was approved by the Shenyang People's Government and created out of the the Shenyang Automotive Industry Corp. Since 1984, this firm has experimented with industrial enterprise leasing operations and with a variety of operational contract responsibility systems all over the country, continuously exploring new paths to "separating ownership and operation."

Zhao Xiyu [6392 1585 0645], board chairman and general manager of the firm, reported that it has adapted some of the experience obtained through pilot testing of joint-stock systems and strived to build itself into a large stock conglomerate. The firm has raised all of its nearly 1 billion yuan in investment capital through stock offerings, obtained all of the old Shenyang Automotive Industry Corp's nearly 700 million yuan in assets through stock sales, and permits financial agencies to make sizeable purchases of its stock. All of the stock the firm has sold publicly has been large issues, and buyers include Chinese citizens, foreign friends, overseas Chinese, and domestic and foreign enterprises and public institutions. Once issued, the firm's capital stock cannot be withdrawn but may be traded, transferred, or pledged as security on stock markets. The stock is priced at rates determined by the marketplace, pays dividends at regular intervals, and thus both is remunerative and entails risk. The firm also issues reports on its operational performance at regular intervals. The firm made its first public issue of renminbi preferred stock, which had a

face value of 100 yuan, on 15 July. Within a month, people from all walks of life had bought more than 50 million yuan worth of the stock, and sales are expected to reach 100 million yuan.

Jinbei Corp's stock offerings have been characterized as follows.

- **Both common and preferred stock are employed.** The firm converted its current 1988 assets of 500 million yuan into common stock and publicly sold 100 million yuan in renminbi preferred stock, which pays annual dividends of 16.5 percent and whose holders have priority in receiving dividends. The firm decided to employ preferred stock because of its concern about people's receptivity to the idea of buying stock.
- **Foreign currency (U.S. dollar) stocks are sold abroad.** The firm has scheduled an issue of \$4 million in foreign currency stocks bearing its name. Foreigners holding U.S. dollars may purchase these stocks directly from designated sellers, and dividends are to be paid directly in U.S. dollars.
- **Dividends are distributed on a per-share basis from the profits remaining after the firm pays its income taxes and remits the prescribed amounts of public accumulation and public welfare funds, as stipulated in the Corporation Law.** The firm is working to transform its current system, in which taxes and profits are lumped together, into a new system which separates taxes and profits.
- **The firm has set up foreign-exchange accounts.**

#### **Difficulties Plague Our Joint-Stock Program, So Support Measures Must Keep Pace**

Conference participants noted that, since the old economic administrative system remains untransformed and the new system has not yet been erected, many reform policies and practices are not very conducive to the development of joint-stock corporations. Thus participants suggested that the following matters be considered in our pilot testing of joint-stock systems.

- **Problems relating to taxation.** For joint-stock enterprises, we should separate profit and tax collection, reduce enterprise income taxes to 35 percent, and set the state's share of profits according to the amount of stock the state receives in exchange for the assets it turns over to enterprises. In deciding how to distribute dividends, a board of directors may act to ensure that the state's earnings on its stock plus the taxes it is to receive from the enterprise exceed the current level of taxes the enterprise currently pays. In addition, we must avoid double taxation. Since joint-stock enterprises will already be paying income taxes and other taxes, the earnings individuals and units obtain from stock should not be taxed a second time.

- **We must protect the rights and interests of stockholders.** Once an enterprise distributes stock and thereby defines equity in the firm, undistributed profits and appreciation of assets should revert to stockholders and not be appropriated by the state, as should assets resulting from after-tax credit repayments.
- **We must establish a financial system that is geared to joint-stock enterprises.** The conference suggested that pilot-test enterprises, while continuing to employ statistical categories that are still required, experiment with accounting systems that are commonly used abroad.
- **We must revise cost management systems as quickly as possible.** Employee benefits and bonuses constitute remuneration for labor. Could these expenditures be listed as pretax disbursements under certain regulations?
- **We must as quickly as possible establish asset-appraisal agencies, accounting offices, securities firms, stock exchanges, and other institutions to handle the various types of work involved in stock sales, trading and transfer. And we must accelerate training of needed professional personnel.**
- **We must draw up laws and regulations on joint-stock companies, stock trading and other related issues.**
- **We must strengthen guidance and control of joint-stock enterprises.** We must require that certain percentages of the funds raised through stock sales be used as fixed and working capital and that stock issues be subject to the approval of local people's banks and to certain limitations on volume.

## COMMERCE

### Ministry of Commerce Plans Four Reform Measures

OW0311004688 Beijing XINHUA Domestic Service  
in Chinese 1250 GMT 1 Nov 88

[By XINHUA reporters Chen Yun and Jiang Jun]

[Text] Beijing, 1 Nov (XINHUA)—Vice Minister of Commerce Pan Yao announced at a meeting in Beijing today that, starting next year, the Ministry of Commerce will implement four experimental measures in order to improve market order while carrying out reform work.

Pan Yao said: In the past 10 years, the reform of the commercial structure has centered on five areas. First, commercial structure in the society has been changed from unitary to diversified operations. Second, the system of procurement and marketing of commodities has been changed from centralized procurement and marketing to different forms of procurement and marketing. Third, government handling of supply and marketing of commodities has been gradually taken over by private

sectors. Fourth, commercial enterprises has been changed from being government subsidiaries to undertakings with full decisionmaking power. Fifth, the management system of commercial work has been changed from direct control to indirect macro-control.

Pan Yao held that it is worth summing up experiences and lessons from these reform measures, especially the improvement of circulation and market environment and order. He said: For example, in adjusting the commercial structure, some people thought that circulation would be more active if there were more channels. Now it seems their view is not totally correct. We have to set a limit on channels and must not let them develop in a blind manner. We must give full play to the leading role of state commercial undertakings and supply and marketing cooperatives while developing multichannel circulation. In reforming the system of procurement and marketing commodities, some people thought that it would be better to fully loosen control in order to activate the market. Now it seems that their view is also not totally correct. We must gradually open markets with certain limits, otherwise the market will be thrown into disorder.

Pan Yao said: Our efforts to eliminate confusion in circulation and to improve the market order are definitely not to negate reform and return to the old road.

He said: In improving the circulation of commodities next year, the commercial departments have to probe new methods and will mainly carry out four reform measures. In Shandong's Zhucheng, Hebei's Zhangjiakou, Zhejiang, Shandong's Yantai, and Liaoning's Dalian, we will carry out experiments in integral production and the marketing of pigs, vegetables, tea, fruits, and honey. In Henan's Zhengzhou City, we will set up a forward market for wheat and other food grains on trial basis. We will establish a number of wholesale trading companies which may operate in several regions using a simplified administrative structure on trial basis. We will also establish consumers' cooperatives at various plants, mines, schools, and residential centers based on the principle of cooperatives on trial basis.

## FOREIGN TRADE, INVESTMENT

### Social Scientists on Benefits of Coastal Development Strategy

40060112 Guangzhou GANGAO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese No 10, 15 Oct 88 pp 27-29

[By correspondent Hou Wenfang 0186 2429 6078: "Beneficial Exploration of Questions in Connection With the Implementation of an Export-Oriented Economic Development Strategy—Sidelights on the Symposium on the Theoretical Problems in Connection With the Development of an Export-Oriented Economy in the Coastal Regions"]

[Text] On 14 October 1988, the Shandong Provincial Academy of Social Sciences, the Shandong Provincial

Commission for Foreign Economic Relations and Trade, and the Weihai Municipal People's Government jointly held a symposium on the theoretical problems in connection with the development of an export-oriented economy in the coastal regions. The symposium was attended by 117 persons from social science research institutes, institutions of higher learning, and representatives of working departments in the provinces and municipalities along the coast. Fifty-nine scholarly papers, research reports, and research data were submitted by them to the symposium. During the meeting, delegates from all the various localities spoke out freely, aired their views, reviewed experiences made during developmental work in the coastal regions, and thoroughly explored the theoretical problems in connection with the strategy of developing an export-oriented economy in the coastal regions, putting forward several constructive suggestions. The following is a summary of the major topics discussed at the symposium:

### **I. The Inherent and Fundamentally Peculiar Problems of an Export-Oriented Economy**

Participants at the symposium were generally agreed that the decision by party and government to adopt as strategy for the economic development of the coastal regions the vigorous development of an export-oriented economy was an important strategic choice, consonant with the changes in the international economic situation. In the powerful trend throughout the world economy toward internationalization and financial integration, there is no other way for China but to develop an export-oriented economy. The term "export-oriented economy" is derived from the western idea of "developmental economics," and has not yet reached the state of a fully mature theory; it is still open to argument and the subject of differing viewpoints. The sphere within which this theory may be applied is also limited to socialist developing countries and territories with market guidance, and it can hardly be applied intact to a developing socialist country as large as China. When the concept of "export-oriented economy" is applied to China, we must, therefore, define its meaning in a scientific way in accordance with the trends and demands of the present time and the national conditions of China.

Participants at the symposium expressed the opinion that export-oriented economy refers to a type of economy that is opened up to the outside and has established connections with the outside world. An economy of this nature has its peculiarities as to the scope and degree of foreign involvement. This means, as far as scope is concerned, that it reaches beyond its own national boundaries in its connections with the world economy, and, as far as the degree of its involvement is concerned, that its relations with the world economy must be at a rate that is more than half of the total amount of all its economic activities. Strictly speaking, therefore, export-oriented economy refers to an economy of which all or more than half of the economic activities within its economic region has completely opened up to the international market and is participating in the great international circle.

But some participants at the symposium expressed the opinion that an export-oriented economy is an economy with special characteristics. If we would assume that an export-oriented economy only exists where imports and exports exceed a certain standard proportion of the GNP, then there would be only Singapore and other such countries and territories with extremely high reliance on foreign trade that would qualify as export-oriented economies, while Japan, all along famous as a "trading nation," and the United States, whose multinational corporations span the globe, would, on the other hand, have to be considered a "domestically oriented economy." To differentiate in this manner would be unrealistic and would also make no sense in theoretical respects. We must, therefore, define export-oriented economy as an "economy with a high degree of internationalization" or say that export-oriented economy refers to countries (territories) of which economic activities, from production to marketing, have essentially become part of the international market mechanism, forming an economically benign circle, with the consequence that the said country's (territory's) production structure has been changed and improved in a rational way, that the competitiveness of the said country's (territory's) products in the international market have been improved, and that the economic development of the country (territory) in question has been promoted.

### **II. Problems of Developmental Strategy and Developmental Alternatives of an Export-Oriented Economy**

What strategy is to be adopted and which alternative is to be chosen in the development of China's export-oriented economy? These questions were topics of lively debate among the delegates at the symposium.

According to one opinion, development of an export-oriented economy in the coastal regions is the overall strategy, and implementation of this overall policy requires determination of specific strategies. Starting out from the changes in the international economic situation and the conditions and advantages of China, the choice must be a strategy that integrates balanced industrial and agricultural development with a complex economic development. Reasons for insisting on balanced industrial and agricultural development are: 1. Throughout history China has been a country whose economy was based on agriculture, and if the development of agriculture were neglected or sacrificed for the lopsided pursuit of industrialization, the loss would be bound to outweigh the gain. 2. In view of the worldwide ecological imbalance and the tendency toward abnormal weather conditions, the agricultural problem will become a formidable ordeal that mankind will have to face in the future, so that the development of agriculture must be given priority consideration. 3. The tendency of rising world prices for agricultural products is unavoidable. It would, therefore, be unwise to convert agricultural land into land for industrial use, and to rely on grain imports to supplement grain shortages. Reasons for adopting a strategy of

complex economic development are that different areas of the coastal region have peculiarities and differences as to geographical position, natural resources, industrial foundation, level of economic and technological development, and the quality of their inhabitants. Measures would have to suit local conditions, and the strategy chosen must be the best alternative. Since the strategies will differ, the economies will be variegated and mutually supplementary, so that there will be mutual compatibility throughout the entire coastal region. Only by the combination of a complex developmental strategy with a strategy of balanced industrial and agricultural development and by an integrated operation of the economy, can stable and rapid development of the export-oriented economy be achieved.

According to yet another viewpoint, the rapid development of an export-oriented economy will have to pay the price of inherent instability in economic development. China is a large country, which must not be exposed to too great risks and fluctuations in the course of its economic development. We must, therefore, apply flexibly to China's coastal region the experiences in the development of export-oriented economies made by the "four little dragons of Asia," and must employ the double strategy of an organic integration of an unbalanced development with a pluralistic development. We must selectively develop certain key industries (guidance industries) and utilize the various connections of these guidance industry sectors to stimulate the development of other industrial sectors. In order to achieve a stable and rapid development of an export-oriented economy in the coastal regions, it is, furthermore, necessary to adopt a pluralistic development strategy which includes diversification of guidance industries, pluralistic patterns in the use of foreign capital, and a pluralistic spread of export markets. Organic integration of the above-mentioned two strategies in connection with their mutual supplementation and assistance will reduce and disperse the risks involved.

What direction shall China's export-oriented economy take? Most delegates at the symposium believed that according to China's national condition, China cannot simply imitate the newly industrializing countries and territories, but must explore, on the basis of their experiences, a road that suits the national conditions of China.

Other participants at the symposium believed that China's export industry ought to employ a multilayered rolling pattern of development. Since China has already a fairly complete range of industries, and although formation of its export industry had followed a certain orderly sequence, there still had been in the overall developmental process some cases of mutual overlapping and simultaneous duplication during the process of formation of China's export industries. Export direction for certain products appeared at the same time as import substitution of certain products, and no one delineated

the two phases of export direction and import substitution. Certain famous brand products which rely on the domestic market should also be fostered as key items, and key items fostered by the state must be gradually moved from being handled regionally to being handled by the production industry, and then again from the industry moved on to the enterprises, so as to promote development of famous brand products and of enterprise groups, and to improve international competitiveness and economic returns.

Other participants at the symposium believed that due to various historical reasons, there is a very distinct tendency toward assimilation in the formation of China's production structure. This kind of blind competition at low level is detrimental to the development of an export-oriented economy. When selecting their direction and structure in the development of export-oriented economy, the various localities must, therefore, start out from their own actual conditions, must be clearly aware of their own advantages and weaknesses, must resolutely decide on what is to be accepted and what is to be rejected, must give prominence to key items, must develop new products, and must pursue the way that is consonant with their own peculiarities.

### **III. The Issues of Effectively "Attracting Foreign Investments and Cooperating With Units in the Interior," and of Expanding Exports To Earn Foreign Exchange**

Participants at the symposium engaged in an earnest review of experiences in efforts to "attract foreign investments and cooperate with units in the interior," and in efforts to export in order to earn foreign exchange, efforts that have been made in the past few years all over the country. They exchanged information with regard to this line of work, and it was generally agreed that wherever this work had been done well, it had acted as an important stimulus toward a rational adjustment of the product mix and toward technological transformation. The main problems that still exist are that there has been an insufficient liberation of minds from old concepts, that policies have not been pursued to a sufficient degree and with sufficient vigor, that the organizational system has not yet been properly straightened out, and that the disparity between different localities has remained very large. The key to any acceleration of the work of attracting foreign investments is the degree of opening up shown in our policies and the strategy chosen for the use of foreign capital, as well as being fully aware of the benign cycle between attracting foreign capital, operations under indebtedness for loans, and the promotion of the economy, and being aware of the important role this is playing in achieving increased economic returns.

In the matter of "cooperating with units in the interior," the participants generally agreed that the effective establishment of lateral connections is a major trend in economic development. At present, the capitalist countries and the various countries of Europe show a trend of

combining together in their stand toward the outside world. It would be an impossible situation if we were to allow every single export production enterprise in China to orient itself toward the international market and engage in direct imports and exports. This would also make it impossible to compete successfully in the international market. A more realistic way would be to intensify connections between export production enterprises, and also between production enterprises and foreign trade enterprises, organizing a system of import-export enterprise groups, where the form of association of these enterprise groups could be along share system lines, or holding each other's shares, or even in the form of mutual mergers.

In the matter of exporting to earn foreign exchange the participants generally agreed that the coastal regions are presently restrained in their exports to earn foreign exchange by the following three main factors:

First, the problem of qualified personnel. This is generally reflected in the extreme shortage of qualified persons who know English and are capable of conducting foreign business, a fact which is the cause of many difficulties experienced by export-oriented enterprises when engaged in direct exports, and a fact which has them refrain from, or feel unable to accept authority to conduct foreign trade. It can be said that the shortage of qualified personnel is the largest restraining factor in present efforts to export and earn foreign exchange.

Second, the problem of export losses and contradictions between domestic and foreign marketing. Some comrades pointed out that export losses have by now become a heavy burden on state and local finances. To solve this problem it is necessary, on the one hand, to improve product quality, increase product value by processing, raise the conversion rate for foreign exchange, and improve capabilities for exports and earning of foreign exchange. On the other hand, it was suggested to lower the value of the RMB considerably, to help offset export losses, because the exchange rate of the RMB is still inordinately high, which is the cause of "fake losses" in export business.

Third, the problem of competition between ports. Some comrades were of the opinion that following the liberation of trade, "civil wars" broke out repeatedly between ports, who would force prices up and vie with each other in buying up commodities, and who would then lower prices to compete in sales. Due to the fact that the cost of foreign exchange was not uniform for the various export commodities, it was only natural that after enterprises had to bear responsibility for their own profits and losses and trade was decontrolled, foreign trade departments would vie with each other in taking up products for which costs were low and that they would stay away from high cost products, while at certain periods there would be limited sources for export goods in China. This, of necessity, has had two consequences. One was that it resulted in the loss of part of the traditional export

markets and in a shrinkage of the overall export scope, and the other consequence was that in a situation where everybody competed in the procurement of goods, there had to be an overall rise in the domestic prices of low cost products, resulting indeed in a vicious cycle.

#### **IV. Some Ideas on the Development of an Export-Oriented Economy**

During their discussion of some important theoretical and practical questions in connection with the export-oriented economy, the delegates put forward some plans and ideas as to the development of an export-oriented economy in the coastal regions:

1. With the large cities in the coastal region as core, formation of three large economic groups and effecting an economic integration. Many countries throughout the world are now participating in the trend of forming "economic integration," to cope with the ever fiercer competition in the international market. China on the other hand has shown in its process of developing an export-oriented economy in the coastal regions the "wasteful domestic conduct" of having every province and every municipality engage in the area of foreign trade in every kind of mutual wrangling, mutually cutting the ground from under each other's feet, and of shifting every trouble to other parties' shoulders, which has greatly weakened China's efforts to open up foreign trade channels and reduced its capability to increase exports and earn foreign exchange. An effective measure to eradicate these types of "wasteful domestic conduct" would be to institute an economic integration throughout the coastal regions. The measure could be implemented by organizing and setting up three large economic groups, with the large cities of the coastal region as core, for mutual cooperation, working with an appropriate division of labor and oriented toward all countries and territories of the world. These groups could be: North China with Tianjin and Qingdao as core, forming the Bohai Economic Group, oriented toward Japan and South Korea; East China, with Shanghai as core, forming the Changjiang Delta Economic Group, oriented toward Japan, the United States, and Western Europe; South China, with Guangzhou and Fujian as core, forming the Zhujiang-Minnan Delta economic group, oriented toward Hong Kong, Macao, Singapore, and Taiwan. Between the three economic groups a plan should be worked out for a common market and for integrated action, and through market mechanism cooperation could be achieved, with a division of labor, to advance the export-oriented economy of the coastal areas to ever higher levels of development.

2. Establishment of a certain number of free ports and free trade zones in China's coastal regions. Since China has a long coastline and many excellent harbors, it may, in addition to operating special economic zones, opening up cities, and opening up coastal zones, also establish a certain number of free ports and free trade zones as in Hong Kong. Hong Kong plays an important role in the

development of an export-oriented economy in China's coastal regions. China needs Hong Kong, and needs, furthermore, to create several more "Hong Kongs" in the interior for the continuous expansion of its opening up to the outside world and to achieve ever higher levels of progress in its export-oriented economy.

## LABOR

### **Better Labor Composition Termed Critical for Deepening Economic Reform**

40060106 Beijing JINGJI RIBAO in Chinese  
1 Nov 88 p 3

[Article by Chen Xiaomei 7115 2556 2734: "A Better Labor Composition Is Critical to the Further Intensification of Economic Reform"]

[Text] Many enterprises have quickly begun to achieve a better labor composition in 1988. This new situation may be critical to the further intensification of reform.

**1. A Better Labor Composition Is the Inevitable Outcome of Carrying Out the Contract Management Responsibility System and Linking Staff Member and Worker Payrolls to Enterprise Economic Results.** Since the contract management responsibility system was put into effect, enterprise managers have certainly wanted to improve their internal management and labor composition in order to fulfill the tasks that were given to them by the state. But without wage reform, they have often found it hard to effectively improve their labor composition. Since enterprises did not have full distribution decisionmaking power and staff members and workers could not make more money by doing more work, there was no profit mechanism for improving their labor composition. The widespread linking of staff member and worker payrolls to labor results has certainly provided the conditions for reforming the labor composition within enterprises. All of the enterprises that have now improved their labor composition have generally either first linked their staff member and worker payrolls to labor results or at least become responsible for their payrolls. In summary, the contract system has given managers the motivation to carry out drastic reforms, including labor reform, within enterprises and aroused their initiative. Linking payrolls to economic results has created a profit mechanism for improving labor composition and settled the distribution relations between the state and staff members and workers.

**2. A Better Labor Composition Is a Breakthrough in China's Formation of a Labor Market.** Since improving their labor composition, many enterprises have used an unemployment system within their factories. That is, the best staff members and workers are chosen for jobs; those not chosen are given new production and service outlets, and those who cannot be put to work are temporarily unemployed within factories and paid only basic wages or living expenses. The significance of this is that while a labor market has not yet been formed

throughout society, a labor market within factories has been formed first. While it is still hard to rationally regulate the labor force throughout society, deployment of the labor force within enterprises according to the principle of efficiency first is becoming a reality. Of course, after improved labor composition forms a competitive employment mechanism, the initiative of most enterprise staff members and workers will be aroused, but this will certainly not lighten enterprise burdens.

**3. A Better Labor Composition Has Paved the Way for Reform of China's Enterprise Personnel System.** In order to further eliminate "everyone eating out of one big pot" and the "iron rice bowl," China began to widely practice a labor contract system among new enterprise workers in 1987. But since most enterprise workers were permanent, the contract system seemed to exist in name only. Moreover, there were also many drawbacks to the old cadre system, and overstaffing, wrangling, and being able to be promoted but not demoted were prevalent. These seriously hindered enterprise reform and growth, but a better labor composition has brought about a basic change in the situation. Almost all of the enterprises that achieved a better labor composition introduced a competitive personnel system. That is, they chose and employed the best cadres and workers through methods such as democratic election and application or bidding and mutual choice. Some enterprises eliminated the distinction between workers and cadres altogether, choosing and hiring personnel based on work needs and individual ability. Some enterprises have formulated and carried out the principle of pay in line with job changes. Based on an improved labor composition, some enterprises have practiced a labor contract system for all permanent workers. After achieving a better labor composition, many enterprises thoroughly reformed their old wage systems and began to practice realistic systems, such as structured and piecework wage systems. These reforms completely eliminated the old labor personnel system and vigorously improved enterprise vitality.

**4. A Better Labor Composition Can Raise Enterprise Tolerance for Price Reform.** Premised on correct macroeconomic policymaking, the key to whether China's price reform can succeed is the capacity of enterprises to digest and accept price increases. In order for enterprises to be able to tolerate price increases, they must strive to tap their latent potentials by raising their productivity and lowering their product costs. The reason why a better labor composition has been widely achieved in 1988 is also, in a certain sense, the quick self-regulation and emergency measures that enterprises have taken toward price increases. If they had not, neither the fulfillment of contracts nor the interests of the enterprises and their staff members and workers could have been ensured. If efficiency was raised in most enterprises throughout China, national revenues would increase, enterprises would be strengthened, and China's price reform would have a solid economic foundation.

The facts show that enterprises and their staff members and workers are now basically able to accept having other arrangements made for 8-10 percent of the surplus personnel in their original labor composition, with a small percentage of them becoming unemployed within factories. Three issues must be noted: 1. The other arrangements for all surplus personnel should be made in several steps, considering the capacity of enterprises to digest and make arrangements and the external circumstances; 2. "Indiscriminate application" must be realistically avoided. There are many ways to raise labor productivity. In particular, modern, advanced enterprises that have a full workload should not necessarily all have to reorganize their labor composition; 3. Matching reforms in other areas must keep up. In particular, national and local governments should start emphasizing work in the areas of evolving social guarantees and labor markets as soon as possible. If these issues are not paid attention to, it will be very hard to uphold and consolidate long-range reform of the labor personnel system within enterprises.

#### **Progress in Urban, Rural Wage Reform**

40060089 Beijing ZHONGGUO JINGJI TIZHI GAIGE  
[CHINA ECONOMIC SYSTEM REFORM] in Chinese  
No 9, 23 Sep 88 pp 14-16

[Article by Ni Di 0242 6611, member of the State Commission for the Reform of the Economic Structure: "Progress in Reforming the Urban and Rural Workers' Income Distribution System"]

[Text] China's structural economic reform is a readjustment and redistribution of interests in all fields according to the requirements for the development of a socialist commodity economy. An important part of the overall economic reform is the reform of the workers' income distribution system.

One of the major problems of the old system was the rigid and excessive control of workers' income distribution by the state. Especially under the domination of "leftist" ideas, some forms and theories of distribution which embody the primary stage of socialism were regarded as capitalism; egalitarianism was taken as the "fair" principle of distribution; and the "iron rice bowl" and rigidly controlled welfare and social security were vaunted as marks of the superiority of socialism. Distribution became an equalized and welfare-like system, separated from individual work and contribution and social exchanges, which seriously dampened the enthusiasm of workers and adversely affected the development of the social productive forces.

Since the 3d Plenary Session of the 11th CPC Central Committee, China's economic reforms, whether in rural or urban areas, have all started with the reform of the distribution system. With the gradual introduction of reforms, the implementation of the policy of opening to the outside world, and the development of different

types of ownerships and the commodity economy, the gaps between individual incomes have begun to widen, rocking the foundation of the old distribution system and bring on new changes in the distribution structure. Rather than mere security and "fairness," the distribution policy is now aimed mainly at promoting efficiency while giving consideration to fairness; the mechanism of distribution solely by the government is being replaced by one of distribution mainly through the market, supplemented by government distribution; and individual income is no longer limited to wage and work points from a single source, but can include earnings from diverse sources. The 13th CPC National Congress further clearly pointed out that in the primary stage of socialism, it is imperative to adopt diverse forms of distribution, with distribution according to work remaining predominant and to determine a correct policy in this regard. This shows the direction in theory and policy for the further reform of the distribution system from now on.

#### **Major Progresses in Reforming the Distribution System**

The egalitarian distribution system is discarded in the rural areas. Two major reforms have been carried out. One is the big increase in the purchase prices of farm and sideline products, which has increased the peasants' percentage of the national income, narrowed the income scissors between urban and rural residents, and put an end to the situation in which industry and cities eat out of the "big pot" of agriculture and the rural areas. Between 1979 and 1984, the peasants' net income increased by 113.7 billion yuan as a result of the increased purchase prices of farm and sideline products. The ratio between the per capita living expenditure income of urban residents and the per capita net income of peasants changed from 1:0.29 in 1978 to 1:0.51 in 1987, narrowing the gap between the incomes of urban and rural residents. The other is the widespread implementation of the system of contracted responsibilities based on the household with remuneration linked to output in the rural areas, breaking away from the egalitarian distribution system under which everyone eat out of the same "big pot." In the past, under the strong influence of egalitarianism, the problem of how to distribute income for the peasants reasonably according to their work in a collective rural economy had long remained unsolved. With the implementation of various forms of the contracted production responsibility system in the rural areas, particularly the contract system based on the household, the peasants now "keep everything after delivering what belongs to the state and the collective," which fully embodies the principle of distribution according to work, more pay for more work, and less pay for less work. There are also marked changes in the peasants' income-distribution structure. The proportion of the peasants' income from family-run operations increased from 26.8 percent in 1978 to 81.5 percent in 1986; and the proportion of their income from unified collective-run operations dropped from 66.3 percent to 8.5 percent.

**The income of urban workers and staff members is tied to performance and contributions, and government organizations, institutions, and enterprises are beginning to have two different wage systems.** The reform of the wage system for urban workers and staff members began with the restoration and expansion of the enterprises' bonus-distribution authority. With the expansion of the enterprises' power to make their own decisions, many different experiments in wage reform were carried out, leading to a fairly comprehensive reform of the wage system in 1985. A structural wage system, under which wage was based mainly on one's position and was established for workers and staff members of state organs and institutions. Most enterprises set up a bonus fund which floated with their economic performance. Some trades and enterprises tied their total payroll to their economic performance on an experimental basis. After several years' experimentation and popularization, more than 8,000 enterprises, about one-third of the state-owned enterprises included in the national budget, had their total payrolls tied to economic performance by the end of 1987. More are expected to do so this year.

The significance of the 1985 wage reform. First, as the income of each worker or staff member is tied to his own work contribution, responsibility, and technical level, distribution gaps is beginning to widen, which is a step in the direction toward distribution according to work. Especially, since wages are tied to performance, the workers and staff members of enterprises have come to understand that their wages are determined by their own work as well as the enterprises' economic performance. The past idea of "relying on the state for higher wages" has changed to relying on the enterprise and the workers and staff members themselves to "earn their wages," and there is a growing sense of competition. Second, because most state organs and institutions are nonproductive units, and the wages of their workers and staff members are paid out of the state treasury, wage increases are mainly readjustments made directly by the state. In contrast, the wages of enterprise workers and staff members are a part of the production costs, and wage increases are determined by the amount of labor put in by the workers and staff members and the economic results produced by the enterprise. Therefore, the wages of workers and staff members of government organizations and institutions and the wages of enterprise workers and staff members are handled through different distribution channels and under different wage systems. This is one of the fundamental differences that separates a commodity economy from a product economy, and an important step forward in wage reform.

**The encouragement for some people to get rich before others and the permission for different forms of distribution to coexist have widened the income gaps and promoted common prosperity at the same time.** For a long time some people have wrongly believed that common prosperity means that all members of society must prosper at the same time and to the same degree. Especially during the decade of turmoil, distribution

according to work was dismissed as a bourgeois right, and whoever gets rich before others was denounced as a newborn bourgeois element. This seriously dampened the masses' enthusiasm for work, stifled their talents and wisdom, and encouraged a small number of people to indulge in comfort and idleness, hindering and undermining the development of the productive forces.

The 11th Plenary Session of the 11th CPC Central Committee reaffirmed the socialist principle of distribution according to work and the policy of allowing some areas and some people to work hard and get rich before others. First, expert growers, breeders, and skilled craftsmen among the peasants were allowed to give play to their talents and wisdom, and a large number of specialized households have emerged since. Next, skilled workers in urban areas were hired as advisors to township enterprises. Then, scientific research was encouraged to serve production, and a number of research institutes and scientists and technicians formed joint ventures with enterprises or were hired for part-time jobs. Finally, those who contributed to the success of contracted or leased enterprises were rewarded with higher income. In the meantime, by giving permission and support to the opening of individual and private enterprises and joint ventures and the issuance of bonds and stocks, some people and areas were enabled to get rich before others. Inspired by their example, more people and areas also became prosperous. Between 1986 and 1987, the proportion of peasant households with a per capita annual income of under 200 yuan dropped from 82.6 percent to 11.3 percent, and the proportion of households with a per capita annual income of more than 400 yuan increased from 2.4 percent to 45.2 percent. The proportion of urban households with a per capita monthly living expenditure income of less than 35 yuan dropped from 37.27 percent in 1981 to 5.67 percent in 1986, and the proportion of households with a per capita monthly income of more than 50 yuan rose from 1.27 percent to 79.5 percent over the same period.

**The state control on wages, bonuses, and other individual incomes has begun to change from highly centralized administrative control to indirect macro-control by economic means.** In the past, not only were wages the only source of income for workers and staff members, but wage distribution was arranged and controlled completely and directly by the state. The enterprises and local authorities had no say on wages. As the economic reform develops in depth, the system of wage distribution has also been reformed step by step. Since 1984, the following measures have been taken successively: collection of the bonus tax, with the abolition of fixed bonus distribution quotas for enterprises; collection of a regulatory tax on wages, with the lifting of direct control over the total payroll of enterprises whose total payroll is linked with economic performance; and collection of a regulatory tax on individual income to regulate the

excessively high incomes of some urban and rural workers. Beginning in 1987, decisions on wages, bonus distribution, and forms of wages are all made by the enterprises themselves. State control over income distribution is turning in the direction of indirect control by economic means.

In the past 10 years, the continuing in-depth development of the urban and rural economic reform and the continuing reform of the workers' income distribution system have greatly improved the people's living and income standards and accelerated the development of the national economy. Between 1978 and 1987, per capita annual net income of peasants increased by 230 percent, and per capita annual living expenditure income of urban residents increased by 110 percent, allowing for price rises in both cases.

### Major Problems in Reforming the Distribution System

Although 10 years of reforms have dented the egalitarian distribution system, egalitarianism remains a major problem in urban workers' income distribution. Some of the reform measures already introduced also need to be improved and strengthened. Other problems have also cropped up.

Consumption has grown too fast, resulting in structural inflation. On the question of total consumption, the ratio between consumption and economic growth was reasonable during the Sixth 5-Year Plan. In 1984, however, purchasing power and per capita income began to grow at a faster rate than the growth of the economy and labor productivity. Although the trend was checked somewhat in 1987, the inertial and hidden causes of excessive growth in consumer demands were not completely removed. On the structure of consumer demands, the problems are mainly in urban areas. First, institutional purchases have grown too fast, far exceeding the growth of national income and revenues. Next, the income and consumption of some people have grown too fast.

There are inordinately wide income gaps and unreasonable distributions, manifest mainly in three areas: First, distribution is not quite reasonable between different types of ownerships, trades, enterprises, and places. Second, the income of mental workers is lower than manual workers. Third, a small number of officials, collective enterprises, and individual operators have colluded with people at home and abroad to make huge profits by illegal means. These phenomena not only have their historical, conceptual, and policy reasons, but are also caused by such factors as flaws in the reform of the price, tax, and market systems, the immobility of the labor force, unequal opportunities, the lack of a sound legal system, the failure to strictly enforce the law, and so forth. All these problems need to be solved as the reform continues.

There is no stabilizing mechanism to regulate wage increases and production growth. The relative rates of wage increases and production growth fluctuate greatly

from year to year. Wages may increase at a much lower rate than production growth one year, and at a much higher rate the next year, a condition which is conducive neither to the steady growth of production nor the steady improvement of the people's living standard. An important cause of the situation is that yearly wage increases are not tied to production growth, but determined artificially, based on revenue-and-expenditure considerations and the feelings of workers and staff members. First of all, this practice violates the principle that living standards must be determined by production. It shows the ideological influence of the product economy that workers must rely on state distribution for wage increases. Secondly, the lack of rules for wage increases has caused fierce competition for funds, which in turn strengthened the forces of egalitarianism, weakened wage control, and caused difficulties and resistance to wage reform.

A labor market and a corresponding unemployment insurance system have not yet been established, which means that the objective basis essential for the fundamental reform of the egalitarian distribution system is still lacking. The basis of China's "big pot" distribution system is the job security system. The state takes overall care of the labor force with an "iron rice bowl" labor system. The results are five men doing three men's work and sharing three men's food, increasingly egalitarian distribution, and extremely low labor efficiency. Although two rather important reforms have been introduced to the labor system in China in the past few years, making a dent in the "iron rice bowl" employment practice, the concept that workers cannot be dismissed and no one should be unemployed in a socialist society has not changed fundamentally, and it is, therefore, difficult to change the egalitarian distribution system.

## PRC MEDIA ON FOREIGN ECONOMIES

**Evaluation of Hungary's Economic Reform Theory**  
40060100 Shanghai SHIJIE JINGJI DAOBAO in  
Chinese 17 Oct 88 p 6

[Article by Wang Yizhou 3769 6654 5297: "Practice Evokes Profound Knowledge and Penetrating Insight; an Evaluation of Hungary's Reform Theory"]

[Text] Conversion to a market economy is naturally liable to produce many elements and phenomena which are not in accord with traditional socialist forms, but this by no means implies abandoning socialism. One of the so-called "characteristics of socialism" is not allowing private capital to occupy a monopolistic position in the national economy's lifeline industries (such as nuclear power stations, coal mines, oil fields, railroads, posts and telecommunications, and metallurgy); the second characteristic is not to allow private capital to control or

influence social and political power. As long as these two premises are adhered to, no matter what nonsocialist elements emerge, reform will not be carried to extremes.

In response to an invitation, I visited Hungary to do research from May to August of this year. For over three months, I conducted a broad and fruitful exchange with colleagues in Hungary's theoretical circles. Although Hungary is a small country, the breadth of its theorists' field of vision and the independence of their views evoke intense admiration. The practice of long-term reform has prodded theorists to constantly cast aside dogmas, practice self-renewal, and push social scientific research to a new stage.

### On Economic System Reform

Hungary's economists agree that although the overall economic system reform which was launched twenty years ago has achieved some results, it has been far from satisfactory. They presented criticisms and suggestions from different perspectives regarding problems which exist in reform and the future direction of reform.

The noted economist Ardos Dibo pointed out that three defects exist in current economic reform. First, although central directive planning has already been eliminated, the autonomy of enterprises is still weak and far from complete. The administrative hierarchy's control over enterprises and managers has changed from formal, direct, tangible control to informal, indirect, intangible control, and although this control, too, is unreasonable and leads to low efficiency, enterprises have no choice but to submit to this rigid system. Second, while it is by no means the case that macroregulation and planning guidance are unnecessary, the existing economic control system and its utilization methods have many defects. For example, structural defects exist in the present tax system and wage system, and the coexistence of these defects with the market elements which emerge in the course of reform not only have not caused the situation to take a favorable turn, it has, on the contrary, gradually made problems more serious. Third, the most serious inadequacy lies in the fact that reform itself is one-sided and unidirectional. For example, it allows a commodity market to emerge, but does not allow a capital market to emerge; it allows the labor force the freedom to be employed and select enterprises, but does not allow enterprises the freedom to fire and select their labor force. This has resulted in the emergence of an incomplete market system and indirect planned administrative control, leading to confusion and contradiction. Dibo believes that the next main direction of attack for reform is to establish a market system and liberalize state-run industry, and that the key to this lies in changing the ownership structure. Establishment of a market economy is inseparable from ownership system reform. At the new stage of reform, the proportion of various forms of cooperation and private ownership should be greatly increased. This should not only include agriculture, the food service industry, and commerce, it should also

extend to manufacturing and general industry. The flow and transfer of capital and the labor force should be freer, allowing the basic reform measures of state-run enterprises a chance to succeed. Naturally, this implies that enterprise bankruptcy and worker unemployment will by no means be confined merely to paper, but rather will be an actual action and process.

Dibo also believes that, while conversion to a market economy may naturally produce many elements and phenomena which are not in accord with traditional socialist forms, this by no means implies abandoning socialism. One of the so-called "socialist characteristics" is not allowing private capital to occupy a monopolistic position in the national economy's lifeline industries (including, for example, nuclear power stations, coal mines, oil fields, railroads, posts and telecommunications, and metallurgy). The second characteristic is not allowing private capital to control or influence social political power. As long as these two premises are adhered to, then no matter what nonsocialist elements emerge, reform will not be carried to extremes. Dibo made the criticism that, as far as Hungary was concerned, the main obstacle to reform at the present stage was not pressure or restraint by the Soviet Union or Comecon, nor was it disputes between the "reform faction" and "conservative faction" within Hungary, although these have a significant effect on the penetration of reform; the main obstacle lay in the fact that people, including reformers and economists themselves, lacked a clear understanding of what the main existing problems were, where reform should proceed next, and how to achieve new targets.

Professor Thomas Bauer, who has been known all along for his sharp criticisms of the government reform program, takes a similar view. He very clearly distinguishes between two widely divergent types of reform. One type of so-called "reform," according to Bauer, is entirely a typical kind of improvement; namely, major and minor repair of the original system, "modernizing" and "perfecting" it. Another type of real reform is a fundamental transformation of the activity principle of the original economic system. Many people idly discuss reform, but they actually do not understand at all the distinction between reform and improvement (or reform and "perfection"). In practice, they have often consciously or unconsciously created a form of compromise which differs from the original form but is not another type of mechanism. Professor Bauer calls this form of compromise a mixture which is "neither a planned system nor a market mechanism." This mixture has given rise to the bureaucracy and low economic efficiency of the traditional planned system, as well as the cyclical economic fluctuations, inflation, and high income disparity which are usually present in a general market economy.

At the present stage, all socialist nations, including Yugoslavia, Hungary, Poland, and China, whose reform began earlier and has proceeded at a faster pace, have

merely taken different steps based on the original starting point and system; none of them have gone beyond the old system's "balanced" sphere of action and achieved truly thorough reform.

Several comments: First, compared with traditional theory and reform thought, the above criticisms and suggestions are bold. They call for establishing a complete market economy in which state-owned enterprises will not hold a monopolistic position, the principle of administrative orders will be completely negated, and there will be a typical "mixed economy" structure, giving rise to an economic climate similar to that of the enterprises of Western nations. Second, the essential characteristics of a market economy are manifested as a free enterprise system and a free price system. Judging from this, the views of Hungary's economists have grasped the basics; however, what is still unclear is specifically how to achieve demopolization and pluralization of the ownership structure, and how the current price reform of socialist nations can overleap the conventional concept of "price adjustment." Third, up to now, the concept of "conversion to a market economy" has been unable to gain the support of socialist political economic theory; rather, reform has been based on classical Western liberal theory. How to explain this logical contradiction will become a major task confronting the economists of socialist nations.

## AGRICULTURE

### Survey on Rural Reform Reveals Peasant Support, Complaints

OW0811004288 Beijing XINHUA Domestic Service  
in Chinese 0655 GMT 2 Nov 88

[By reporters Xuan Fenghua, Lu Guoyuan, and Zhang Weidi]

[Text] Beijing, 2 Nov (XINHUA) — China's rural reform has been going on for fully 10 years. What are the comments of peasants, who are most closely related to and concerned with reform? Recently reporters surveyed 100 peasant households in four provinces and two cities. Their answers are: 97 households believe that 10 years of reform "have brought good luck to peasants" and have enabled them to "lead a comfortable life," and they hope reform will continue; three households complain that they "lead a hard life."

The survey was conducted in Zhejiang, Jiangsu, Shandong, Hebei, Tianjin, and Beijing municipalities suburbs for over three months beginning in June this year. Using the same survey outline, reporters had direct conversations with peasants of different ages, cultural backgrounds, and income on farmland and in peasant houses in order to get as many detailed and factual answers as possible. "Compared to life 10 years ago, our life now is like in heaven. It was like hell before." This is the most modest language used by the 97 surveyed households in their praise of

reform. Among them, 18 percent of households have an annual income in excess of 10,000 yuan, while 70 percent have an annual income of more than 5,000 yuan. Many peasants said during the survey: If you want to know whether reform is good or not, take a look at every household and you will find out. They led reporters to look around newly-built brick houses and newly-installed furniture and electrical home appliances. They said with all sincerity: How can we possibly own these things without the policy adopted by the third plenary session? Gao Shixing, a peasant of Luoshe Town in Jiangsu Province's Wuxi County, talked with reporters over a cup of tea in a teahouse. The old man said: "I have lived to be 63 years old. When have I ever seen such a good life? You do not have to worry about food and clothes and can spend money whenever you like. When you get old, the government will look after you." The peasants of the three households that complained of "leading a hard life" have found it difficult to become better off mainly because they are short of labor force in their families. However, their life is much better than before. Their common wish is "the hope that reform can bring us more benefits."

While praising the past 10 years of reform, most surveyed peasants did not conceal their complaints about a certain status quo in the countryside at present. Ninety-four percent of peasants complained about a scarcity of agricultural means of production, high prices, and chaotic supply. Liu Yuangui, a peasant in Dongguan Township of Hebei's Cangxian County, said: "It gets more and more difficult to till the land now. The prices of chemical fertilizers and pesticides are fluctuating drastically day by day. When you need them badly, they are often not available." Peasants are particularly indignant over newspapers' frequent exposures of incidents of fake pesticides doing harm to peasants, calling it "without scruples." Shi Baoliang, a peasant in Tangnan Township of Zhejiang Province's Yuhang County, scoffed at those who get rich simply by means of the slip of a "document" [of official approval and authorization], calling these people "moths of the state" that "profit by other people's toil." Peasants of 97 of the 100 households expressed strong hatred for various "bureaucratic profiteering" phenomena. They said: "Those who work hard cannot make money nowadays. Those who scramble to seek unjustified favors by using the back door make big money. Despite outcries from workers and peasants, the 'profiteering bureaucrats' laugh heartily." Some peasants, calculating with their fingers, told reporters: "If things go on like this, all the benefits that the third plenary session gave us will be obliterated." Though the language used in criticizing some existing current problems was strong, most peasants believed that these problems were not caused by reform but by those cadres who violated the laws and disciplines and those "profiteering bureaucrats" whose eyes can see nothing but money and who take advantage of the loopholes of reform. "The harm is done by these people."

The peasants who were surveyed generally worried about the following: "Will the party's policy that enables people to become rich change?" "Will reform come to a halt

because of this?" Wu Guigen, a peasant in Jinqiao Village of Wuxian County's Fengqiao Town in Jiangsu Province, has a family of five members. His annual income exceeds 10,000 yuan each year. He built a 2-story house with three rooms on each story in 1986. His house is installed with pendent lamps and pendent fans. He leads an ever more comfortable life. The 60-year-old peasant said: "What I am fear is that there will be a change of policy. I have just had a few days of comfortable life and do not want to see a good policy cancelled." About 80 percent of surveyed peasants expressed a similar worry to that harbored by Wu Guigen. They hoped that another 3d plenary session 10 years from now—the 13th CPC Central Committee's 3d Plenary Session [as received] will continue to "bring them good luck."

What came as a surprise was that in their replies to reporters' questions, the peasants who were surveyed expressed an awareness of participation in major state affairs that is almost as strong as can be found in ordinary citizens. Zhang Zaiqin, 35-year-old woman leader of Yaojiacun Village in Zhejiang Province's Yuhang County, said: China is an agricultural country. The government should pay more attention to the opinions of us peasants when formulating policies in the future. When 800 million peasants are satisfied with the government and their initiatives for production have been boosted, there will be no task that cannot be accomplished properly.

**Increased Investment in Seed Bases Advocated**  
40060083a Beijing NONGYE KEJI TONGXIN  
[BULLETIN OF AGRICULTURAL SCIENCE AND  
TECHNOLOGY] in Chinese No 9, 17 Sep 88 p 1

[Article by Yang Sanbao 2799 0005 0202 of the China Seed Company: "Increase Investment in Seed Bases"]

[Text] In the last 10 years our nation has seen great development in the establishment of field crop seed bases. Conventional seed plots and reproduction fields, hybrid parent reproduction fields and seed production fields have all been strengthened. Some provinces have established hybrid assembly bases whereby "the province raises the seed, the locality reproduces it, and the county produces it." We have had a batch of large, specialized seed bases to serve the nation.

Presently, there are three levels of seed base construction. The first is state-run original (improved variety) seed farms and partially state-run farms. This is the backbone of seed production and it is responsible for breeding original seed, hybrid parent seed and new, improved seed strains. Second, we have the seed bases taken on by special arrangement by the seed companies. They primarily are responsible for enlarging reproduction of original seed and producing improved variety seed. Third, there are the seed farms in the towns, villages, and special households. They primarily enlarge reproduction of seed used in field production. This

makes up for insufficient seed supply to the companies. The three above-mentioned levels of seed bases comprise an area of about 30 million mu, with five billion kg of annual seed production accounting for one-third of our annual seed demand.

**The Main Problems With Our Seed Base**

1. Production of state-run original (improved variety) seed farms has fallen off. At present there are over 2300 original (improved variety) seed farms nationwide, and they occupy 2.5 million mu of cultivated land. They produce 550 million kg of seed and grain annually; over 300 million kg of this is original (improved variety) seed, representing 54.2 percent of total production. Their potential for providing seed to the nation remains enormous. Currently, because certain specific policies of the state regarding management and administration of original (improved variety) seed farms still leaves something to be desired, the socio-economic burden on the farms is excessive. As production construction funds are in short supply, seed production is difficult to maintain and output has fallen markedly. For example, the Lianhu Farm in Jiangsu Province, with over 10,000 mu of cultivated land, has fairly good seed production and management of various kinds. However, it is burdened with certain non-productive policy expenditures. In 1985, with expenditures for such things as workman's separation and retirement, grain and oil costs exceeding selling prices, and non-staple food subsidies, the average expenditure per person on the farm was about 311 yuan. Also, some farms have a ratio of approximately one separated and retired personnel to every two active workers. The rate of increase for these expenditures greatly exceeds the rate of increase in farm output value and profit. Thus, the workers ranks are unstable. Many workers have to go out on their own and get help from their friends in finding another job. Consequently, some farms have no choice but to cut back on or abandon seed production and change direction toward industrial sideline production with fairly good economic results. Comparing 1980 with 1986, as a result of the setbacks delivered by the above-mentioned factors, China's original (improved variety) seed farms saw their production of grain crop seed fall 1.9 percent and their original (improved variety) seed fall 14.3 percent.

2. The ability to resist natural calamities is below par. The farm area with seed bases able to ensure stable yields despite drought or excessive rain and with high and stable yields isn't too large. Basic water conservation conditions are wanting and to a considerable extent we still rely on favorable weather for food. Moreover, primary production materials are in short supply. Since 1987, there has been too little fertilizer to sell to the farmers at state prices as rewards for selling seed to the state. For every 50 kg of seed sold to the state, only three kg of fertilizer is available for the farmer to buy at state prices. This far from meets the needs of seed production. Such infrastructure conditions as seed storage and transport, seed selection and processing, and seed inspection

are also fairly poor. Some seed must be left outdoors which certainly affects seed quality. Because facilities for seed selection and processing haven't kept pace, most seed is produced and sold as a semi-finished product.

3. Seed production costs are high, so the enthusiasm of producers wanes. Seed production is highly technological, the cycles are long and much work is needed. Add to this the fact that prices for production materials have risen in recent years, and the result is continual increases in the cost of seed production. At the same time, state regulations still stipulate that the price of conventionally tilled primary crop seed is to be 50 percent higher than the price of commodity grain of a similar variety. First-grade improved variety seed is to be priced 20 percent higher, second-grade improved variety seed is to be priced 15 percent higher, and third-grade improved variety seed is to be priced 10 percent higher. Seed prices are low and so are the economic results. Some original (improved variety) seed farms have suffered losses because of this and the enthusiasm of seed producers have been flagging. In addition, after grain seed is released for sale, seed production at some bases doesn't tally with the grain contract orders. Document 35 of the State Council (1985) clearly stipulates that "grain seed produced by specialized farms (households) breeding fine seed is not to be entered in contract orders." However, to date certain areas haven't carried this out. Many seed base agricultural households have to use seed as commodity grain to fulfill their selling mission on grain contract orders.

#### **Strengthen Management and Construction of Bases, Increase Income**

1. Further improve the management system for state-run original (improved variety) seed farms. Government at all levels should strengthen and improve its leadership, continue to earnestly carry out rectification, and correct the guiding ideology in business. It should actively develop various kinds of management with a focus on seed production in line with the spirit of reform, liberalization, and vitalization. Rationally deal with the actual problems of how to treat employees, separated and retired personnel of original (improved variety) seed farms as well as the problems of education and employment for their children in accordance with the pertinent state policies. Set up grain ration supply channels to stabilize and develop the workers ranks so as to heighten quality and protect improved variety seed production.

2. Increase income and improve seed base production conditions. When setting up funding for such items as agricultural base construction, small farm water conservation, flood prevention and emergency measures, grain production development, disaster resistance, and base construction for high grade agricultural products, and when attracting foreign funds, the state and the localities must bring the seed base construction within the scope of

fund employment. Furthermore, we must acquire the necessary machinery and equipment and be successful in supplying production materials.

3. Speed up steps toward construction of large, specialized commodity seed bases. Currently, a specialized seed production base spanning the provinces and regions (counties) has been formed. Examples of this are the corn seed production bases in such areas as Chengde, Hebei Province; Chaoyang, Liaoning Province; and Chifeng, Inner Mongolia; the hybrid rice production bases in such areas as Sichuan, Hunan, and Northern Jiangsu; the jute and bluish dogbane bases in such areas as Guangdong and Guangxi, and the southern-bred seed bases on all parts of Hainan Island. For the most part the infrastructure and conditions at these seed bases are still quite poor. I propose that the state and concerned provinces and autonomous regions invest in construction of seed bases that would serve the whole nation, the whole province and even seed exports in the same way as was done in constructing those high-grade agricultural product commodity bases. While fulfilling contract orders, we also should set aside a certain amount of seed for the nation so we may make up for a crop failure in one year with a bumper harvest in the next and regulate seed used. I propose that the problem of funding for seed stores be resolved from state coffers. In order to build our nation's seed production on a stable and reliable foundation, government at all levels should increase investment and build seed production bases.

#### **Northwest Farmers Seek Better Land**

*OW1810230288 Beijing XINHUA in English  
1643 GMT 18 Oct 88*

[Text] Beijing, October 18 (XINHUA)—Some 240,000 farmers have moved from arid areas of northwest China to more fertile land in the past five years.

Jia Youling, an official from the poor areas work group of the State Council, said 95 percent of the migrants from the middle part of Gansu Province and the southern part of the Ningxia Hui Autonomous Region have now become better off in the Hexi corridor and the irrigated areas around the Yellow River, and have even begun to sell grain to the state.

The official said the moves were encouraged by the Chinese Government in order to transform the living standards of the poverty-stricken farmers in the arid mountainous areas of the northwest.

According to the latest reports from these poor areas, after most of the farmers moved away the relief from population pressure led to a revival of farming, and grain production over the past five years has increased at an average rate of five percent every year. As a result, the relief grain provided by the government to the area has decreased by seven million kg every year.

There are altogether 28 counties and cities in the poor mountainous areas. Drought has taken a severe toll on the land and the 6.4 million inhabitants have often been close to starvation.

In 1984 the Chinese Government decided to move 900,000 people to the yellow river irrigated areas in Ningxia and the Hexi Corridor, which is irrigated by the water flowing from glaciers on Mt Qilianshan in Gansu Province.

There are 460,000 hectares of uncultivated land waiting for the newcomers and the government has allocated over 70 million yuan to help them settle.

Now, more than 60 water projects have been finished and 60,000 hectares of waste land cultivated, and there is one hectare of farmland for every four migrants.

Each migrant gets 800 yuan from the government to help him or her settle in; in return, they must spend some time working on public projects every month.

The newcomers can harvest enough to feed themselves in the first year, and in the second year they can produce enough to sell the surplus.

**Acreage Used for Harvesting Grain Expanding**  
*HK0411052588 Beijing RENMIN RIBAO in Chinese*  
1 Nov 88 p 2

[Report: "China Expands Acreage for Grain Growing This Autumn and Winter"]

[Text] Autumn and winter sowing has gradually moved from the north of the country to the south. While sowing in north and northwest China is drawing to an end, it is in full swing in central and southeast China. Statistics compiled until 20 October show that 250 billion mu of farmland had been sown, making up 67 percent of the total acreage for sowing. The features of this year's autumn and winter sowing are: The acreage for grain

growing has been expanded, more organic fertilizer has been used, and the area sown by seed drills has been somewhat increased. The rate of progress and quality of autumn sowing in the Huang He and the Hui He valleys has been affected by delayed autumn harvests and droughts there but striving efforts are being made to fulfill the task of sowing despite the severe drought.

**'Optimum-Scale' Farming Makes Progress Around Beijing**

*OW2810105288 Beijing XINHUA in English*  
0815 GMT 26 Oct 88

[Text] Beijing, October 26 (XINHUA)—Since the "optimum-scale" farming method was introduced on its outskirts three years ago, Beijing has achieved remarkable progress in this respect, according to today's BEIJING DAILY.

This year it has been applied by 91.6 percent of the villages in the municipality's 11 grain-producing counties, covering 68.2 percent of their farmland.

The village-run farms have expanded their average land occupation to 93 hectares from just some 40 hectares a few years ago, and every farmer has an average of 1.5 hectares to cultivate, as opposed to 1.2 hectares, said the paper.

So far, it reported, the specialized grain-production villages have increased to 1,513 from the previous 825.

This facilitates agricultural mechanization, said the paper, adding that, for example, Shunyi County, which is believed to have done a good job in implementing the optimum-scale farming method, has allocated 160 million yuan to buy farm machinery in the past two years.

**1987 Irrigation Area**

*40060131 Beijing ZHONGGUO SHUILI [CHINA WATER CONSERVANCY] in Chinese*  
No 10, 15 Oct 88 p 38

[Excerpts]

Place	Effective Irrigated Area	Irrigated Forest Areas and Orchards	Irrigated Grasslands	unit: 10,000 mu Area Irrigated by Power	Area Irrigated by Pumps
Total	59,792	2,112	979	10,094	322
Beijing	454	41	0	472	0
Tianjin	444	16	0	485	0
Hebei	5,069	230	3	4,893	2
Shanxi	1,389	25	0	1,219	2
Nei Monggol	1,737	126	209	1,028	2
Liaoning	1,138	139	1	1,043	1
Jilin	892	7	7	685	1
Heilongjiang	1,010	20	0	928	1
Shanghai	461	0	0	483	0
Jiangsu	4,721	20	0	5,263	7

Place	Effective Irrigated Area	Irrigated Forest Areas and Orchards	Irrigated Grasslands	unit: 10,000 mu Area Irrigated by Power	Area Irrigated by Pumps
Zhejiang	2,184	71	0	1,598	9
Anhui	2,684	0	0	2,260	1
Fujian	1,274	10	0	227	32
Jiangxi	2,615	10	0	586	21
Shandong	5,555	252	4	5,738	5
Henan	3,673	22	0	4,628	2
Hubei	2,840	13	0	1,968	4
Hunan	3,802	23	0	1,903	48
Guangdong	3,240	259	0	620	34
Guangxi	1,855	6	0	362	67
Sichuan	3,455	14	21	930	38
Guizhou	616	0	0	94	32
Yunnan	1,314	8	1	197	2
Tibet	150	0	0	0	0
Shaanxi	1,523	8	2	1,310	2
Gansu	1,127	97	29	572	3
Qinghai	243	12	123	39	4
Ningxia	378	56	8	97	0
Xinjiang	3,949	627	571	466	2

**Supply of Water in Beijing Reservoirs Increases**  
*OW1910043788 Beijing XINHUA in English*  
0905 GMT 18 Oct 88

[Text] Beijing, October 18 (XINHUA)—Water storage in Beijing's leading reservoirs is estimated to have increased by more than 200 million cubic meters this year although the amount of rainfall was actually less than last year, according to today's BEIJING DAILY.

The paper attributed the increased water supply to improvements in the city's methods of water storage and distribution.

The paper said that during the first nine months of this year, the average rainfall in Beijing was recorded at 559 millimeters (mm), 28 mm less than the same period of last year.

Beijing is one of the Chinese cities affected by an acute water shortage and its water reserves per person amount to one-sixth of the national average.

To save water, Beijing's leading reservoirs (Guanting and Miyun) stopped supplying water from August 2 to September 20, thus saving 88 million cubic meters of the precious liquid, the paper said.

**Water Conservancy Sector Diversifies Operations**  
*OW2810014288 Beijing XINHUA in English*  
0702 GMT 24 Oct 88

[Text] Beijing, October 24 (XINHUA)—The output value of China's water conservancy sector rose from 100 million yuan in 1978 to three billion yuan last year and 65 percent of administrative units began supporting themselves, PEOPLE'S DAILY reported today.

In the past decade, the sector has abandoned its concentration solely on water conservation and begun to diversify, the paper wrote. Factories have been set up alongside water projects and some larger reservoirs and dams have been turned into tourist resorts.

Last year the output value of the water conservancy business in Shandong Province was 350 million yuan. Factories affiliated to the sector sold some 2,000 different products on the domestic market, the paper said.

Hubei Province has focused on growing fruit and raising fish. In 1987, its citrus output was seven million kilograms and fish production about 26.6 million kilograms.

This diversification has helped the sector to become more financially independent, the paper said. In Wujin County, Jiangsu Province, 60 water conservancy stations have invested 450,000 yuan out of their own funds to build more water projects.

**Method for Increasing Grain Output**  
*40060083b Beijing JINGJI CANKAO in Chinese*  
17 Oct 88 p 1

[Article by reporter Yan Zhenguo 7051 2182 0948: "A Way to Surmount Fluctuations in Grain Production; a Reporter's Thoughts While Covering Scale Management in Shunyi County in the Suburbs of Beijing Municipality"]

[Text] Shunyi County in the suburbs of Beijing Municipality began to gradually practice proper scale management of cultivated land in 1986. Now 94 percent of the villages and 98 percent of the cultivated land throughout the county have achieved proper scale management.

Their primary method is to build collective farms where the collective economic strength is great and specialized division of the labor force has been established. The farms carry out unified management as bi-level contracting is conducted between the farms and the villages as well as the labor force and the farms, and planned output is linked with remuneration. In villages where specialized division of the labor force is marked, and the collective economy is also strong, grain production brigades are organized. The specialized brigades carry out bi-level management, household contracting, and contract distribution. Villages with fairly backward economies still continue to implement the "double field system" or the original contracting of a unit for the completion of a large scale task.

After Shunyi County implemented proper scale management, it immediately surmounted the grain production fluctuations that had plagued it continuously from 1984 to 1986. In 1987, total grain production county-wide had risen 10 percent over 1986, and this summer grain production was 10.8 percent beyond that of last year. The more than 600,000 mu of wheat fields throughout the county produced an average of 359 kg per mu which is a historical high.

Not long ago this reporter made a trip to Shunyi County to investigate the situation there and was deeply touched and inspired. I will now note some of the things I realized and some of the feelings I had.

First, proper scale management is not a denial of "all-round contracting." Rather, it is a new creation and development of the farmer with regard to the output-related system of household contracting. By using the system of contracting a unit for the completion of a large scale task, our nation's agriculture took a new leap that attracted world-wide attention. Within three or four years, national grain production had increased one-third. However, in the end, the system of contracting a unit for the completion of a large scale task is not a "long-term remedy." As soon as the problem is eliminated, a new one crops up—the land is too dispersed, it is difficult for us to raise the productive forces further. What do we do? Scale management in Shunyi County has carried forward the merits of the output-related system of contracted responsibility where the managers possess rights of self-determination and don't eat out of the "communal pot." It has continuously given full play to the enthusiasm of laborers and households and has overcome the maladies of pro rata division of land contracts. At the same time, it has also given full play to the superiority of unified management in the original cooperative economy (collective economy). The consensus of farmers regarding proper scale management is: "Those who don't till the land have grain to eat, those who don't contract for land have something to do, and land contractors don't set up 'communal pots'."

Second, the purchase price of grain has been too low and this truly has discouraged farmers from engaging in grain production. However, mere raising of grain purchase

prices won't solve the current problem of fluctuation facing agricultural production. Shunyi county raised the contract purchase price of wheat this year from 0.47 yuan per kg to 0.5 yuan per kg which is already higher than the price of wheat on the international market.

County-wide there are 42.5 million kg of grain subject to purchase contracts and the government spent 1.275 million yuan more to raise the price. However, the average mu of cultivated land yields only 1.82 yuan and the actual benefit to each farmer is 2.91 yuan. Such a slight benefit is superficial to the farmer. Even if the per kg price of grain were raised again by 0.06 yuan, the effect would be limited. Because our nation's farmers have too little cultivated land, the commodity rate is too low. After Shunyi County implemented scale management, it solved this problem to a certain extent. In Shunyi County, a labor force that plants 20 mu of land can take in more than 1500 yuan. Li De [2621 1795] of Chengezhuang Village told this reporter that he contracted for 28.8 mu of farmland this year and in the summer the average harvest of wheat per mu exceeded the fixed production by nearly 100 kg. The summer harvest alone netted him 1600 yuan. Adding the fall harvest, his income could approach 3000 yuan. He said, "You can bet I'm going to go all out to bring crops out of the soil!"

Third, scale management has solved the problem of relying on farmers themselves to accumulate expansion and production funds. In the past few years, Shunyi County tried to bring about agricultural modernization construction by having industry subsidize agriculture and using county and village investment. Not only was there no money collected from planting the fields, but 30 million yuan of subsidies went to agriculture with 37 yuan being put into every mu. However, subsidies didn't work effectively but created fluctuations in grain production. Since what was called a subsidy for agricultural production was actually a subsidy for distribution, agriculture was not bolstered. After scale management was implemented in 1986, the situation changed. In 1987 accumulations were made for the first time from cultivated land, with grain fields accumulating 20 to 30 yuan per mu and cash crop fields accumulating 80 to 100 yuan per mu. The whole county earned 30 million yuan. These accumulations as well as the original annual subsidy of 30 million yuan for agriculture were used entirely for farm construction and the purchase of farm implements. Last year 100,000 mu of sprinkler irrigated land was constructed and a large cache of farm implements were purchased. This was a huge step up for agricultural modernization. This year Shunyi County has again put forth persistent efforts and is preparing to sink 60 or 70 million yuan into agricultural build-up. At present, Shunyi County has developed 300,000 mu of sprinkler irrigated land. Wheat is mainly planted and reaped mechanically. And nearly half of the work is cultivating, planting, and reaping corn is mechanized.

Fourth, agricultural production must evolve from "planting for sustenance" to "planting for sale." Without

this historical evolution it would be very difficult for agricultural production to rise to a new plateau. In the first few years of "distribution of farms to each household," farmers grew more grain so as to convert it to cash. In recent years and especially in certain developed areas, as the secondary and tertiary industries developed, farmers planted just enough grain to sustain them in the fields that were distributed to them. Few of the farmers went the extra yard in planting their fields. After Shunyi County implemented scale management, the labor force that planted grain was specialized in planting the fields, with one farm or one brigade specializing in grain having 400 or 500 mu of land and with one farmer contracting for 20 or 30 mu of land. The situation was, as a consequence, greatly altered. Farmers became true farmers. They plant grain primarily to earn money. They can only increase their incomes by planting more grain. This injected a new vitality into agriculture.

Fifth, is government intervention necessary in practicing proper scale management? Some comrades feel that the Party and the government should do no work. As it looks now, this won't do. Although proper scale management is an offspring and development of the output-related system of household contracting, in the end it is not a single matter. Because land distributed under contract is for all intents and purposes free, how could one pass it up? Farmers are not going to automatically transfer the land to another for cultivation. According to information, five villages in the township of Supo in the suburbs of Chengdu have seen 90 percent of their labor force shift to industry, yet the farmers are still unwilling to transfer their land. They say, "What can it hurt to hold on to the fields; and they won't be profitable to us if we give them up." It is not difficult to see that in practicing scale management we can't completely let nature take its course. In capitalist nations they still use legislative, administrative, and economic measures to promote the concentration of cultivated land. In China, the Party and the government not only must protect the immediate interests of the farmers but must represent the long-term interests of the farmers and should carry out effective guidance and organization work. Economic activity is the social activity of man. There can't be complete non-intervention can there? This reporter noticed during this trip covering Shunyi County that county and township-level cadres avoid using the word "intervention" for fear that they will made a mistake. I feel that "government intervention" and "strict orders" are not the same thing.

Policy intervention is also a kind of "government intervention." Where the issue is proper scale management of land, strict orders would be a bad thing, but policy intervention is indispensable.

**Fujian Develops Export-Oriented Agriculture**  
*OW2810082588 Beijing XINHUA in English*  
0229 GMT 28 Oct 88

[Text] Beijing, October 28 (XINHUA)—Fujian Province earned 220 million U.S. dollars in the first half of this

year from exports of tea, fruits, vegetables, medical herbs and livestock products, today's OVERSEAS EDITION of PEOPLE'S DAILY reported.

The provincial government has invested 250 million yuan including a loan of 28 million U.S. dollars from the World Bank to build bases for producing export - oriented farm products.

Fujian has 260,000 hectares devoted to fruit production, 130,000 hectares for tea and 200,000 hectares for aquatic products.

**Fujian Fruit Bases**  
*OW1710200288 Beijing XINHUA in English*  
0640 GMT 17 Oct 88

[Text] Beijing, October 17 (XINHUA)— Southeast Fujian Province has set up a number of fruit production bases with a total area of 160,000 hectares and a total output volume of more than 450,000 tons. This represents four times the area and five times the tonnage available 10 years ago.

The growing of oranges, tangerines, shaddocks (similar to grapefruit), loquats (or Japanese plums) and olives is spread over 50 counties in the province. Last year Fujian exported more than eight million U.S. dollars worth of fruit.

**Gansu Agricultural Output Set To Rise 8 Percent**  
*HK2810131388 Beijing CEI Database*  
in English 28 Oct 88

[Text] Gansu (CEI)—The total agricultural output value of northwest China's Gansu Province is expected to reach five billion yuan, eight percent more than last year.

According to Vice-governor Lu Ming, the total output of grain is expected to hit a record of 5.75 billion kg, nearly 10 percent more than last year.

Good harvests have been achieved in economic crops like rape seed, cotton, fruit and vegetables.

The number of live pigs has reached more than 4.89 million, that of sheep, over 11.21 million, and poultry, 27.3 million, all surpassing last year's figures.

**Guangxi Sugarcane**  
*OW2510075288 Beijing XINHUA in English*  
1634 GMT 25 Oct 88

[Text] The Guangxi Zhuang Autonomous Region harvested an estimated 11 million tons of sugarcane during this processing year, up 19 percent over last year.

### Hebei Grain Output

40060142c Shijiazhuang HEBEI RIBAO in Chinese  
15 Oct 88 p 1

[Summary] Grain output for Hebei Province in 1988 is expected to exceed 20 billion kilograms, an increase of more than 800 million kilograms over 1987.

### Jiangsu Reaps Good Cotton Harvest

OW1710214988 Beijing XINHUA in English  
1611 GMT 17 Oct 88

[Text] Nanjing, October 17 (XINHUA)—Jiangsu Province, one of China's major cotton producers, reaped a good cotton harvest of 500,000 tons from 570,000 hectares this year, a 15 percent increase over last year, a provincial official said.

The provincial authorities made some innovations to ensure a good harvest this year, such as, cotton growers would be given extra subsidies for cotton production.

The subsidies were issued by the rural supply and marketing cooperatives, and cotton users from profits, the official explained.

Some counties which used to have low outputs or were hit by severe drought this year all increased their per unit cotton yield.

### Jilin Signs Trade Contracts With Sichuan

SK2810050688 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 27 Oct 88

[Text] On the basis of fulfilling this year's grain and meat cooperation plans on time and according to the exact number and amount required between Jilin and Sichuan Provinces, next year our province will ship 550,000 tons of corn to Sichuan province, and Sichuan Province will ship 15,000 tons of pork to our province. This agreement was signed respectively by Vice Governor Gao Wen and Vice Governor Jin Hongsheng on the afternoon of 27 October on behalf of the two provincial governments. In a cooperative spirit for mutual benefit and mutual support, the two provinces decided after discussions that in addition to fulfilling the plans of shipping 4,000 tons of pork to Jilin Province from Sichuan Province and shipping 20,000 tons of corn from Jilin Province to Sichuan Province prior to the end of this year, next year Sichuan Province will deliver an additional 10,000 tons of pork in line with our province's demands in addition to delivering 15,000 tons of pork to our province. At the

same time, our province will deliver 550,000 tons of corn to Sichuan Province. In addition, agreements concerning metallurgy, cigarettes, and foods were also concluded and will be further implemented.

### Sichuan Official Discusses Salt Trade Problems

HK2810015788 Chengdu Sichuan Provincial Service  
in Mandarin 2300 GMT 27 Oct 88

[Excerpts] There has recently been a shortage of table salt in parts of the province. (Rao Jiahe), director of the provincial salt bureau, said in a press interview that China's salt production situation is very good this year, and can fully meet the people's requirements for table salt. Sichuan has ample resources of salt, with reserves as high as 3.8 trillion tons. The majority of prefectures and cities have salt resources. [passage omitted] Sichuan's edible salt output has risen from about 1.2 million tons in 1978 to over 2 million tons, while the province's annual table salt consumption is only 900,000 tons. The province is also self-sufficient in salt for industrial use.

On the salt price issue, Rao Jiahe said that salt is a daily essential, and the state exercises management by mandatory planning and sets a price ceiling. The price is controlled by the state. The prefectural, city, and county governments have no powers to change the price. The present moves of a few retail units and individual entrepreneurs in driving up the price and cornering the market violate the state price policy and the market control regulations. The industry and commerce and price management departments must seriously investigate and deal with such cases.

Rao Jiahe said in conclusion that the current general situation in the province's salt markets is good and stable, and supplies can be assured. The current shortage of table salt in some places is a temporary phenomenon caused by shortage of transport and shortcomings in the work of the salt departments. So long as we improve our work and make joint efforts with the transport departments to improve shipments, this problem can be resolved relatively well.

### Sichuan Exchanges Pork for Grain

40060142b Chengdu SICHUAN RIBAO in Chinese  
11 Nov 88 p 1

[Summary] Sichuan Province will receive 600,000 tons of corn, 3,000 tons of soybeans, and 1,500 tons of sugar from Jilin, Liaoning, and Heilongjiang provinces; in exchange Sichuan will ship pork to these provinces.

### Shortcomings in Supervision of Public Security Investigations Cited

40050108 Shanghai FAXUE [JURISPRUDENCE] in Chinese No 9, 10 Sep 88 pp 23-24

[Article by Chen Deming 7115 1795 2429: "Personal Views About the Present Status and Reform of Investigations Oversight"]

[Excerpt] [passage omitted] The present status of investigations oversight may be capsulized as follows: Overseers have authority but no support in exercising it, and after-the-fact oversight is ineffective. Those being overseen have obligations but are not held accountable; they couldn't care less about oversight.

Article 52 of the criminal code for legal proceedings provides: "...should violations of the law be found in public security agency investigations, the public security agencies should be notified to make corrections." However, should public security agencies fail to respond, usually procuratorial organs are helpless to act. Article 49 of the criminal code for legal proceedings provides that "When public security agencies contest People's Procuratorate decisions about arrests, maintaining that a mistake has been made, request may be made for reconsideration, but detained persons must be released at once..." However, some public security agencies insist on no release of detainees pending reconsideration and re-examination, in which case procuratorial organs are powerless. Implementation of a decision not to prosecute in accordance with articles 102 and 104 of the criminal code for legal proceedings pertaining to exemption from prosecution may come up against a similar situation. "...whenever it is considered that the facts about an offense require investigation and assignment of criminal responsibility, the case should be put on file for investigation and prosecution." However, when, for various reasons, some public security agencies refuse to begin legal proceedings even when grounds for a case exist, will not break a case, or file a legal action, or themselves mete out punishments without having sent a case to trial, how will procuratorial agencies find out? If they do find out, what can they do about it? Article 92 of the criminal code provides that, "The detention period for defendants under investigation may not exceed two months..." However, some cases cannot be concluded within the prescribed period, yet the defendants continue to be held, and when procuratorial organs call for redress, they receive a single sentence answer: "once released, who will take responsibility when the time comes for arrest?" Article 99 of the criminal code provides: "...approval of public security agencies' supplementary investigations may be refused;" "cases under supplementary investigation must have the supplementary investigation completed within one month." However, after some cases are remanded for supplementary investigation, public security agencies may take several months. When procuratorial organs call for redress, they find that the other party is unwilling to provide sealed case documents. Sometimes, these procuratorial organs bring them up short by saying, "if you're so capable, do the supplementary investigation yourself." Furthermore, cases of arrest in which the provisions of article 48 of the criminal code pertaining to

detention periods are exceeded occur even more frequently. What responsibility should public security agencies assume for such instances of failure to enforce the law and refusal to accept oversight? It really makes one bemoan one's inadequacy before the law! In addition, for various other subjective and objective reasons, violations of the law occur in the course of investigations without any way of effectively halting them. How can such situations occur? The reasons are as follows:

1. Vague awareness about the importance of oversight. Procuratorial organs bear responsibility for overseeing investigations, yet some procuratorial organs are unwilling to exercise oversight in a forthright manner. They "show undue concern for personal relationships," "want to spare people's feelings," or "wink at infractions." Moreover, public security agencies regard procuratorial organs as routine case work organizations, and they look upon their oversight functions as "minding other people's business," "making mountains out of mole hills," and "making other people look bad"; consequently, they are disdainful of oversight, and they oppose it, feeling they themselves are "capable." This shows contempt for the socialist legal system.

2. Oversight is ineffective. Because figures show a decline in the incidence of cases and a rise in the number of cases broken, some public security agencies have resorted to "no opening of cases for investigation and prosecution even when grounds for a case exists, neither breaking nor prosecuting cases, and substituting punishment for legal prosecution" in violation of the law. Some public security personnel abuse their authority for private gain, turn big cases into small ones, make small cases vanish, and fail to take action when a case exists. Furthermore, procuratorial organs fail to "see" or "hear" violations of the law that have occurred, to say nothing of exercising oversight.

3. Halt at "after-the-fact oversight." Part 3 of Article 5 of the People's Procuratorate Organization Code provides for "...exercise of oversight with regard to whether the investigation activities of public security agencies are legal." However, the law does not explicitly rule at what stage of an investigation oversight should begin, or what procedures are to be followed. As a result, for all practical purposes, oversight of investigations halts at examination and approval of arrests, and examination when a suit is initiated. This is, in effect, after-the-fact oversight. Consequently, numerous illegal situations that occur in the course of investigations cannot be brought to light at once for effective remedial action. This means that it is only at the prosecution or sentencing stage that a miscarriage of justice is discovered. This creates a bad influence.

4. The oversight legal system needs improvement. Existing laws only confer oversight authority on procuratorial organs, but there are no corresponding provisions to support this authority. The only thing that is spelled out is that public security agencies have an obligation to carry out decisions made by procuratorial organs, but

there are no provisions as to accountability for failure to discharge this obligation. As a result, oversight authority cannot be very well exercised. [passage omitted]

### **Federation for Literature, Art Boosts Foreign Exchanges**

OW1211125688 Beijing XINHUA in English  
0723 GMT 12 Nov 88

[Text] Beijing, November 12 (XINHUA correspondent Zhao Wei)—Foreign programs are broadcast three to four nights a week by China Central Television, the country's largest TV station, and Chinese translations of foreign works can be seen everywhere in bookstores and on bookstands.

Ever since China opened its doors to the outside world beginning in 1978, foreign literature and art has become an inseparable part of Chinese cultural life—something unthinkable a decade ago.

According to the State Media and Publications Office, China translated 784 foreign literary works last year and 866 this year.

About 30 Chinese journals now specialize in introducing foreign literary and art works. They include the high-brow WORLD LITERATURE, and TRANSLATION WORLD for general readers, which has a circulation of 110,000.

Through the open door, China also transmits its own culture to the outside world. Last year, the Ministry of Culture sent out more than 400 groups of artists for performances, exhibitions and competitions, and invited more than 300 foreign groups to China.

From 1979 to 1987, China signed 82 cultural cooperation agreements with foreign countries, and now maintains cultural exchange relations with over 130 countries.

The exchange programs handled by the ministry alone during this period totalled 5,400, involving 42,000 writers and artists.

Among the foreign visitors were conductors Herbert von Karajan and Seiji Ozawa, violin virtuoso Yehudi Menuhin, vocalists Luciano Pavarotti and Placido Domingo,

film director Bernardo Bertolucci, and actors Gregory Peck and Charlton Heston, as well as playwrights Arthur Miller and Herman Wouk.

The last ten years also saw a big boost in nongovernmental exchanges conducted by the China Federation of Literary and Art Circles (CFLAC).

Statistics show that by the end of 1987 this organization had handled the tours of more than 4,000 foreign writers and artists, and sent over 1,300 of their Chinese counterparts to tour foreign countries.

In recent years, Chinese associations of dancers, musicians, dramatists and photographers have joined corresponding international organizations, and have sponsored such activities as an international symposium on modern Chinese literature, international film seminar, international forum on traditional Asian music and international film exhibition in China.

During the 1980-1987 period, Chinese artists won 43 top awards, four second and 21 third in international violin, piano, vocal, instrumental composition, ballet, acrobatics and dance contests. In addition, some 150 Chinese films were winners at more than 300 international film festivals.

China's open policy and the increasing cultural exchanges have undoubtedly added new vigor to the rejuvenation of Chinese culture following the founding of New China in 1949, enabling the Chinese to cultivate, step by step, the attitude toward foreign cultures of absorbing and drawing on all that is useful to China while rejecting the dross.

However, Chinese writers and artists feel differently about the impact of foreign cultures on traditional Chinese literary values and esthetic standards.

Views aired by participants at the CFLAC's ongoing fifth national conference are diversified. Some of them suggest that China open its doors wider and introduce more of the cream of foreign works and productions, while others are worrying about "the mud and sand" which is flowing into China along with the "pure water."

However, nobody maintains that China should close its doors again or that all things foreign should be indiscriminately introduced. It is the common desire that the country should develop a culture which has its roots in the Chinese soil but is open to the outside world.

**Taiwan's Southeast Asia Investment To  
Circumvent American Tariffs**

40060117 Shanghai SHIJIE JINGJI DAOBAO in  
Chinese 14 Nov 88 p 7

[Article by Xu Shuanglong 1776 7175 7893: "Taiwan  
Capital Shifts to Malaysia and Thailand"]

[Text] Ever since 1987, Taiwan has faced the problems of an increase in its accumulation of foreign exchange and surplus capital, as well as a rise in labor costs and a loss of international competitiveness by some of its industries. As a result, Taiwan has scrambled to find overseas investment sites.

In the process of shifting industries, Thailand and Malaysia have become two hot spots for the investment of Taiwan capital.

Data from the Malaysian Department of Industrial Development show a Taiwan investment in Malaysia during 1987 of 99.26 million Malaysian dollars in 40 different projects, following only Japan (189.54 million Malaysian dollars in 57 projects) and Singapore (134.95 million Malaysian dollars in 66 projects) for third place. Since 1988, Taiwan capital has shown even more enthusiasm for investment in Malaysia. For example, in March 1988, the Selangor State Government convened a conference in Kuala Lumpur for the purpose of attracting capital from Taiwan industries in which 149 Taiwan enterprises took part. These enterprises were involved in fields related to timber, rubber manufacture, automobile parts, and electronic appliances. During this conference,

21 enterprises pledged investments that produced a 14.1 percent success rate for the attraction of capital. Granted that such a high success rate had a lot to do with Malaysia's efforts; nevertheless, it also demonstrated the urgency of Taiwan's industry shift.

In the second hot spot, Thailand, the shift of Taiwan industry has been even more rapid. Data published in July 1988 by BOI (the Thailand investment commission), as quoted by the Japan Trade Development Association, showed Taiwan investment in Thailand during the first half of 1988 as outstripping Japan, which has consistently held first place in recent years, both in terms of the number of projects invested in, and the amount of investment. In terms of amount of investment, Taiwan invested 29.2 billion baht in Thailand during the first half of 1988, a 412.4 percent increase over the same period in 1987. This was greater than Japan's increase (217.6 percent), giving Taiwan first place. During the same period, Taiwan increased by 300 percent the number of its investment projects to a total of 196 projects, also outstripping Japan (127.5 percent, and 182 projects). Taiwan's investment in Thailand has been principally in clothing, shoes, food processing, processing of decorative items, and toys. One reason for the great infusion of capital from Taiwan, in addition to the reasons given above, is that Thailand has used only a portion of the list of goods for which the United States granted preferential tariffs to Thailand. The entry of Taiwan capital will permit the entry into the American market of nominal Thailand products. The bypassing of tariff barriers is one of the most recent motives for the large scale shift of Taiwan industry.

**Proposed Free Trade Agreement With U.S.  
Analyzed**

40060060 Taipei CHING-CHI JIH-PAO in Chinese  
10 Sep 88 p 2

[Editorial: "What Will Happen If We Sign a Free Trade Agreement With the United States?"]

[Text] In recent years, pressured by American protectionism, the ROC's economy has experienced more and more difficulties, and even the normal growth of our economy has been adversely affected. Consequently, ROC citizens have repeatedly expressed a desire to arrange a free trade agreement with the United States, so as to alleviate this pressure. The American government, however, has never evinced any enthusiasm for this proposal. Nevertheless, the U.S. Senate Finance Committee recently asked the U.S. International Trade Commission to study the feasibility of free trade agreements with the ROC, Korea, and other nations of the Pacific Basin, which move has given renewed hope to the aspirations of many of our citizens.

Free trade agreements require signatories to eliminate all barriers to mutual trade and to open up their markets to one another. Signing such an agreement with the United States would throw open the vast American market to the ROC and its citizens, completely and without any protectionist restriction. Similarly, the agreement would also completely open our markets to the United States. Thus if we do not make full preparations and appropriate readjustments in advance of such an agreement, opening our markets to American firms, with their great might, would threaten our economy, especially the industries we still protect, and might even undermine the development of our whole economy, so that we could be harmed by such an agreement before we begin to reap its benefits.

In the case of the U.S.-Canada Free Trade Agreement, which was signed early this year, for example, Canada mobilized several hundred government officials, scholars, experts, and entrepreneurs as early as three years ago to study the potential impact on each sector of the Canadian economy of the proposed move to throw domestic markets wide open to the United States and to suggest programs to respond to such a move, so that the agreement, if and when signed, would work effectively and its negative effects minimized.

The fact that Canada, whose industrial structure, technological capabilities, income level, and degree of market openness do not differ very much from the United States, still mobilized that many people and spent three years studying and preparing for free trade with America means that, if the ROC gets the free trade agreement it desires, being much farther behind the United States than is Canada, Taiwan very likely will find it impossible to make the necessary adjustments in time to exploit the potential advantages arising from such an agreement and

may even face greater difficulties if it fails to mitigate the adverse effects of the agreement because it neglected to commence preparations at a very early date.

We may analyze the most important provisions of the U.S.-Canada Free Trade Agreement so as to ascertain the advantages and disadvantages that might result if the agreement we sign follows the U.S.-Canadian model, and thereby determine how to prepare for it.

Let us, then, look at the U.S.-Canadian agreement, whose principal provisions we analyze as follows.

"Tariffs." The United States and Canada have agreed to itemize their tariffs, some of which will immediately be reduced to zero on the day the agreement goes into effect, whereas others will gradually be eliminated within 5 or 10 years. Most agricultural products belong to the latter category; that is, their tariffs will be eliminated over 10 years.

"Import Quotas." The two countries have agreed not only to eliminate existing restrictive quotas on imports but to refrain from imposing any more such quotas in the future and to eliminate all quotas on grain imports.

"Export Subsidies." The two countries have agreed to stop subsidizing agricultural exports to each other.

"Energy." The United States has agreed to supply Canada with a maximum of 50,000 barrels of Alaskan crude oil a day and that, if Canada ever faces oil shortages, the United States must maintain a certain level of supply to Canada.

"Banking and Other Service Industries." The two countries have agreed to grant each other national treatment. However, new rules governing the computer service, satellite communication, tourist, architectural design, and other such industries are exempt from this provision.

"Investment." The two countries have agreed to grant each other's investors national treatment.

"Government Procurement." The two countries have agreed to reduce domestic content rules and to grant each other's citizens opportunity to compete in open, competitive bidding for government procurement contracts.

"Other." Tax rebates for exports will be abolished within 5 years after the agreement takes effect, and tax moratoria for exports will be eliminated within 10 years. In addition, commodity specifications may not be employed as a protectionist measure.

If the ROC obtains a free trade agreement along these lines, it will gain the following advantages.

1. Freed from U.S. protectionist pressure, the ROC will enjoy full access to the vast American market and can increase its exports to the United States.

2. Confronted with the Chinese mainland's consistent policy of isolating the ROC, our country's international status would be enhanced by the signing of a free trade agreement with the United States.

3. The ROC could obtain a stable supply of crude oil from the United States and thus diversify its sources of this commodity.

4. Restrictions on the establishment of branches by ROC banks would be abolished, which move would facilitate investment by our citizens in the United States and the development of our foreign trade.

5. The United States would eliminate subsidies on the agricultural products she exports to the ROC, which move would reduce the competitiveness of those exports in our country.

6. The establishment, as protectionism is eliminated and export subsidies abolished, of markets for fair competition would minimize distortion in resource distribution, which move would facilitate the healthy development of the ROC's economy in the future.

In addition to these benefits, we could also demand that the United States relax its restrictions on exports of high-tech and weapons to the ROC. At the very least, restrictions on the former ought to be eliminated.

However, the ROC's economy will be threatened in the following ways if it is completely opened up to the United States.

1. Industries for which imports are currently restricted or for which high tariffs or various special licenses are required will be severely buffeted. And the gradual elimination of the protective measures accorded to agriculture in the program recently passed by the ruling party at its 13th National Congress will constitute an especially serious blow to the ROC's agriculture.

2. The elimination of rebates of taxes on exports within 5 years and of moratoria on taxes on exports within 10 years will weaken the competitiveness of ROC exports to the United States.

3. The ROC's dependence on the American market will grow, which will vitiate the effort to diversify our markets. Overly concentrating our exports to the American market will make our economy more sensitive to the ups and downs of the American economy.

4. Elimination of duties on American imports will reduce our tax revenues. At last year's level, for example, the loss would have been approximately NT \$15 billion.

However, elimination of export tax rebates or moratoria would offset some of this loss.

5. A rise in American imports will adversely affect our domestic production and inevitably create more unemployment. However, the question of whether or not the employment created by increased exports to the United States would compensate for these disadvantages merits further research.

In addition to the above disadvantages, we will have to revise certain laws and regulations, which work will also be onerous. Nevertheless, if we emulate Canada and complete our preparatory and adjustment work ahead of time, we can minimize the potential disadvantages of the proposed agreement. On the whole, the advantages should outweigh the disadvantages, and the sooner we complete our preparations and make the necessary adjustments, the more successful we will be in reducing the disadvantages. Therefore, we propose the following suggestion to responsible government agencies—although it was you who requested that the Americans negotiate a free trade agreement, now it is they who are studying its feasibility. Thus we should begin studying and preparing for the agreement, so that, in the event it is signed, we can make it as effective and advantageous as possible.

#### **Feasibility of Importing Farm Products From Mainland**

40060062 Taipei CHING-CHI JIH-PAO in Chinese  
7, 9 Sep 88

[Article by local correspondent staff: "Is It Feasible To Relax Restrictions on Imports of Agricultural Products from the Mainland?"]

[7 Sep 88 p 15]

[Text] American and Chinese agricultural products goods have been tripping over each other in an effort to break into Taiwan's markets. Thus Taiwan's agriculture clearly faces not only the "foreign invasion" of American produce but a "domestic challenge" from mainland goods.

Seeking free trade, the United States has been seduced by Taiwan's astonishing consumption potential, while Taiwan traders, lured by huge middleman profits, are going all out to sneak mainland agricultural products into Taiwan.

According to a report by the Agricultural Economics Division of the Taiwan Provincial Department of Agriculture and Forestry, the mainland's agricultural exports have risen sharply in recent years, and its mushrooms, tea, frozen vegetables, and other produce have already begun to challenge the overseas markets of similar goods produced in Taiwan.

And now, mainland products have taken another step—they have even entered our own backyard and directly threatened the domestic markets of our farm products.

Super-low price competition from mainland mushrooms has prompted local farmers to establish the Taiwan Provincial Mushroom Farmer Self-Protection Association, and the sneak attack by mainland persimmons left the dried persimmons industry of Hsinp'u, Hsinchu stuck with 50,000 Taiwan jin of unmarketable produce at the beginning of last February.

The rampant smuggling of mainland clams has driven the market prices of Taiwan's counterparts down 40 percent, and the flood of mainland yellow croakers and redcoats on Taipei markets has affected the prices obtained by Taiwan fishermen for their catch.

Eel raisers from the Kaohsiung-P'ingtung region say that, due to insufficient domestic supply, Taiwan has long turned to the mainland to obtain eel fry and eggs [man xian 7665 4775]. The only difference is that, whereas Hong Kong and Macao used to be claimed as the source of these imports, the imports must now be identified as of mainland origin.

The eel raisers add, however, that long overdependence on mainland supply for these goods has given rise to a number of problems in the last few years. For example, the mainland recently has been aggressively developing its own eel-raising industry and thus has begun to restrict exports of fry and eggs, which move has raised the price of fry in Taiwan, set off wild fluctuations in market prices, and increased the costs and risks borne by Taiwan eel raisers. If the mainland ever cuts off supply completely, Taiwan's eel industry and eel exports would collapse due to the resulting jump in costs.

We must carefully evaluate the positive and negative effects of the invasion of Taiwan by the menacing horde of mainland farm products.

Some agricultural experts believe that we must always consider the risks involved in using mainland farm products—whether crops, animal products, or processed goods—as raw materials for production purposes and ask ourselves if goods from other countries can be substituted for these products, whether or not the mainland intends to develop processing of such goods, and other such questions. For the mainland's policy on exports remains unclear, and it is trying to develop its own processing industry, so its export policy could change at any time, and it might decide to prohibit the export of certain products in order to meet its own processing needs.

Agricultural experts from the Kaohsiung area say that, as Taiwan's industry gradually becomes high-tech and as agricultural goods—such as eels, fresh water shrimp, fruit, and fiber crops—become more and more expensive to raise and process yet whose prices cannot be raised on competitive markets, we will have to increase the value added on these goods or, failing that, slash production, so as to keep prices up by holding output down. And if neither of these approaches work, we will

have to decide whether we really need to produce these goods or whether we ought to abandon them altogether.

[9 Sep 88 p 15]

[Text] On the question of whether or not we ought to permit imports of mainland agricultural products for use as industrial raw materials, Shih Chen-hsin [4258 6966 1823], general supervisor of the Keelung Importers and Exporters Association, says there are three issues importers ought to consider. First, if the products in question are about as good in quality as and much cheaper than the products we now buy from other countries, we can consider importing them in order to reduce production costs. Still, we must bear in mind the fact that all such products are traded by mainland government agencies. If any problems with quality occur, we do not know if the mainland will really replace the goods. And since all such goods are produced by mainland government agencies, quality control is bound to be erratic. So without guarantees that the mainland will make good on providing replacements, Taiwan importers are sure to get burned.

Second, we cannot ensure that the products will be delivered on time. Given the mainland's problems with internal transport and the defects of its administrative system, we do not know if they will take their time making deliveries. This will make it impossible for importers to obtain the products when they need them and to supply the raw materials needed by production lines. This is another problem importers should ponder.

Third, once we begin importing from the mainland, the mainland will probably initially adhere to the trade agreements signed with our side, but it is hard to tell what how it will act in the future. Thus, when considering purchases from the mainland, Taiwan importers should not completely sever ties with their old suppliers from other countries. Otherwise, in the event that the mainland has a change of heart, it may be difficult to find new suppliers.

Ts'ai T'ien-t'an [5591 1131 0982], general supervisor of the Keelung Chamber of Commerce, said that the government, in deciding whether or not to permit mainland agricultural imports, naturally weighed all the pros and cons and came to the conclusion that, so long as domestic agriculture, the structure of domestic industrial production, and the interests of local entrepreneurs are not harmed, the import of some goods might help improve the competitiveness of Taiwan firms' exports.

As to the problem of customs clearance for mainland farm produce, Wang Lan-wen [3769 5695 2429], director of the Ministry of Finance's Keelung Customs Office, said that importers, when bringing mainland goods into the country, must indicate on B/C import licenses that the goods are of mainland origin and that they have been shipped via third territories. Customs offices at the port of entry will then examine and clear the goods in accordance with normal procedures. The goods must also be dutied, he said, in accordance with the ROC's

tariff schedule. But the question of whether the goods will be handled under Column One, general rates, or Column Two, preferential rates, is still under discussion and has not yet been decided.

The advantages of importing mainland farm products are as follows. The move will enable local consumers to obtain, in competitive markets, quality goods at cheap prices.

The entry of mainland goods will accelerate elimination of local products in which Taiwan does not enjoy competitive advantage.

And the problems of farm labor shortages and of the aging of Taiwan's agricultural population may be eased for a while by the entry of mainland goods.

But there are also disadvantages to importing mainland goods. With its abundant natural resources and cheap labor, the mainland wields tremendous advantages in agricultural production, so if its produce floods Taiwan markets, local counterparts, unable to compete, will be driven out one after another.

So far, mainland farm products remain novel curiosities for Taiwan consumers. Thus middlemen have made a killing buying the goods at cheap prices and selling them at very high prices. Therefore, so long as marketing channels remain illegal, middlemen will be the one's who get fat, while consumers will not necessarily benefit. In addition, the invasion of mainland farm products will accelerate the erosion of Taiwan's agriculture and leave it little room to survive.

**Report on Hong Kong's Labor Shortage**  
*40060068 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 41, 10 Oct 88 pp 16-19*

[Article by Han Xiang 7281 7449: "Tentative Inquiries Into the Problem of Hong Kong's Shortage of Labor"]

[Text] Contrary to the many countries of the world which suffer from more or less serious unemployment, Hong Kong's problem in the last few years is a shortage of labor. How to treat and solve this problem is at present a hotly discussed topic among all circles of Hong Kong's society.

**Labor Shortage Affects All Trades and Industries**

Hong Kong's labor shortage has by now assumed very serious proportions and manifests itself not only in one trade but in many trades.

Conditions are most critical in the construction trade. According to a survey by the relevant chamber of commerce, the construction industry is short of about 15,000 men, which amounts to about one-fourth of the total labor force of the said trade.

Labor shortage in the garment manufacturing industry is also getting increasingly serious. According to the statement of someone close to the garment manufacturers association, Hong Kong had 9,382 manufacturing firms in 1987, which was an increase of 171 over 1986, but the number of people in this industry dropped considerably from 26,300 in 1986 to today's 25,800, a reduction of over 5,000 persons [as published]. The garment manufacturing industry is now estimated to be 13 percent short of manpower.

In the general merchandise trade the situation is the same. Someone closely connected believes that the retail business now has about 210,000 employees and is short by about 31,000 to 38,000, the rate of shortage reaching 20 percent.

Personnel is also short in banking. It is said that Hong Kong's largest bank, the Hong Kong and Shanghai Banking system, is short 600 to 1,000 men.

Other trades, too, are troubled by labor shortage. There have been reports that over 160,000 staff positions are vacant throughout Hong Kong. Advertisements for working personnel are seen not only in all the newspapers but frequently also at the entrances of shops, restaurants, and hotels. For instance, "This place urgently requires x number of male and female salespersons, please enquire inside," or "This place requires x number female dishwashers, the wage is \$x per month." Even buses bear advertisements in large letters all year long: "Seeking drivers, good pay, good welfare." Many ads remain without response for a long time, which indicates that few people are looking for jobs.

**The Impact of Labor Shortage**

Shortage of labor is already having an impact on society. Main attention is now focused on the construction industry, and here the adverse effect is primarily felt in the government's public housing projects. The government had promised to build 45,000 housing units per year, but due to the shortage of manpower a large part of the project will be delayed four to six months. To this, Zhong Yijie [6988 6654 0267], director of housing, commented, "It is truly a pity."

The labor shortage not only prevents completion of construction projects but also causes management fees to increase, productivity to decline, wages to rise steeply, and profits from constructions to go down, so that some companies are incurring losses. According to one survey, wages in one construction company have gone up 40 percent since the beginning of the year, and for certain particular jobs the increases are from 50 to 70 percent. Salaries of staff and workers in the general merchandise trade have generally gone up 25 percent, and personnel training expenses have gone up 30 percent. Because of labor shortage, wages in the garment manufacturing industry skyrocketed, costs increased, and also adversely affected the prompt fulfillment of overseas orders, even weakened the competitiveness of products.

The large increases in wages has also affected commodity prices. Chief Secretary Ford said that the labor shortage is obviously having a detrimental effect on the government's various construction plans and on the currency inflation suffered by the general public.

**Labor Shortage and Economic Development**

Hong Kong is a densely populated small territory, why should so serious a manpower shortage arise in the last few years? Sir David Wilson, the Governor of Hong Kong, recently phrased it this way, "The labor shortage in Hong Kong is a manifestation of the successful performance of Hong Kong's economic system." In fact, Hong Kong's economy recently began a period of economic prosperity and rapid development.

Hong Kong's 1986 total output value increased 11.8 percent compared to 1985, and in 1987 again increased 13.5 percent compared with 1986 (revised Hong Kong Government figures). This year's increase is slower but according to general estimates still between 6 and 9 percent, which is also a remarkable development.

During the first half of this year, exports of Hong Kong products increased 8 percent over the corresponding period last year. Entrepot trade showed an even larger increase, namely 42 percent, and by value of commodities 55 percent.

After last year's stock market crash, two trades showed quite unexpected developments, one was the real estate business and one was the general merchandise trade. Following a short period of consolidation, real estate

prices and rentals steadily increased, the market is brisk, and people often have to line up to buy houses. Particularly in commercial buildings demand exceeds supply. Visitors to Hong Kong will see with their own eyes that many new buildings have gone up all over the place and that many high-rise mansions are under construction.

The general merchandise trade does not seem to have been hit by the stock market crash either. Its business volume increased this year, and more and more new firms are starting up. According to statistics, value and volume of 1987 retail sales of general merchandise rose 30 and 20 percent respectively over 1986. In the first half of this year, volume and value of retail sales of general merchandise rose 55 and 41 percent respectively over sales during the corresponding period of last year, setting a record. At the end of 1987, Hong Kong had 9,579 general merchandise firms, of which 200 were large, comprehensive companies, some were dealing in Chinese goods, some were large-scale conglomerates operated by Chinese, Japanese, and British capital. Because people's incomes had increased in recent years, the people of Hong Kong prefer to buy famous brand articles, and high-class goods are selling briskly. In view of this situation, Japanese-financed general merchandise stores intend to open more branches and expand their business. British department stores also showed renewed interest in Hong Kong, and Britain's most famous Marshalls Department Store opened this May its first Asian branch in Hong Kong and will open a second store in October. Marshalls plans on opening four or five branches in Hong Kong.

Hong Kong's tourist trade has developed with extraordinary speed. In 1986, the number of visitors to Hong Kong was 3.7 million, an increase of 11 percent over 1986. In the high season of 1987, hotels were occupied to 98 percent. It is said that during the first half of this year, there will be about three million visitors, an increase of 26.4 percent over the corresponding period of last year, and it is estimated that the total for this year will exceed five million.

The unemployment rate in Hong Kong has always been very low. In the third quarter of 1987, the rate was 1.8 percent, and the rate of underemployed was 1 percent (underemployment as defined by the International Labor Organization, which defines underemployed as those who for economic reasons work less than 35 hours per week). This year's unemployment rate, due to seasonal regulatory influences, was 1.6 percent for the first three months, and 1.7 percent during the period from May to July, while the rate of underemployed was 0.6 percent. This is indicative of the full employment enjoyed by the people of Hong Kong.

Foreign investments in Hong Kong also showed a rising trend.

Another important aspect of economic development is reflected in the infrastructure and in municipal constructions. To keep abreast of the economic development,

many new items of infrastructure are being built or planned, such as the Tai Lo Shan tunnel, the container wharf Kuai Yung No 7, a second undersea tunnel, a new airport, and an underground city at Tsimshatsui. These are huge engineering projects costing enormous capital of several billion Hong Kong dollars. Beside, the government has also long-range plans for new municipal construction. It plans, for instance, to have the housing problem of the population basically solved around the year 2000, the so-called "each resident his own house" plan. It plans to tear down the squatter settlements on Kowloon, it plans to spend HK\$10 to 15 billion on pollution control (especially water pollution control), also to build a university, old people's homes, etc. All this reflects from different angles the flourishing state and development of Hong Kong's economy during the last few years and its overflowing vigor. The comprehensive development of the economy is bound to need manpower, and this is the main cause for today's stringency and shortage of manpower.

#### How To Solve the Problem of Shortage of Labor

The majority of people, from government functionaries down to every strata of the society, with the only exception of some single individuals and a small minority, acknowledge and are agreed that there is this universal shortage of labor. But on suggested methods of solving the problem, some agree and some disagree. Especially on the issue of importing manpower from the outside, opinions are very much divided.

The points on which there is general agreement are: First, more is to be invested in automation to raise productivity; second, labor-intensive industries are to be relocated to the mainland; third, technological renovations are to be carried out, and planning of constructions is to be improved, as, for instance, by increased use of prefabricated materials to save manpower; fourth, the Bureau for Professional Training shall train more qualified personnel.

Dissenting opinions are voiced primarily in the issue of importing manpower from outside. Some are in favor and some oppose it, and opinions differ widely.

Those who oppose it believe: First, importing manpower from outside will encourage some people to maintain the inertia of the present state of affairs and obstruct technological improvements and updating, and thus will be detrimental to Hong Kong's development. Second, it will lower workers' wages and will disrupt the process by which the prosperity of the construction industry is taken as opportunity to raise wages; it will, as a consequence, disrupt labor-capital relations. Third, there is a great variety of reasons for the delay of public construction, such as the shortage of steel, timber, and other materials, which forced stoppage on several constructions. Other reasons for the delay to construction are technological problems, also the low prices of bids accepted for public construction, which thus offer little

incentive. Fourth, it will be easy to bring in imported labor but it will be hard to get rid of them, and it will also cause some social problems, such as housing, traffic, public safety, etc.

Those who agree also have many arguments: First, labor shortage is forcing five to six month delays in half of all public projects. If this situation is allowed to persist, the government's long-range plan to solve the housing problem will be seriously jeopardized. Zhong Yijie, director of housing, is still arguing in favor of the "low bid system" to refute criticism of the government. He said that they have had 35 years of experience in building public housing and know how to handle public bidding. He also said that one must not only consider one side of the situation, but must consider the overall interests of Hong Kong. Delaying construction projects is extremely harmful for the citizens of Hong Kong. Second, because of the steep rise in workers' wages due to the shortage of labor, currency inflation has been aggravated and is having an ill effect on the entire economy. Third, it is impossible for the garment manufacturing industry to transfer its entire production process to the mainland, it could only be a makeshift arrangement, the garment manufacturing industry is in urgent need of manpower. Fourth, rising wages increase cost of production, which may force investors to move away from Hong Kong and move to places in Southeast Asia. Fifth, importation of labor is nothing new. Several years ago a large contingent of Philippine women workers were imported; they now number over 38,600. Those in favor of manpower imports believe that according to the urgent needs of the different trades, importation of workers from outside on short-term contracts could not only solve the pressing immediate need of labor but would also be beneficial for the entire economic development of Hong Kong. Li Pengfei [2621 7720 7378], alternate chairman of the Legislative Council, is in favor of importing labor. He said, at the time when labor will be imported, consideration will have to be given to whatever social problems this may involve, such as wages, housing, and traffic.

The British government of Hong Kong also attaches great importance to this problem. We understand a working team has been assembled in the office of the deputy financial secretary to specially study the pros and cons of importing labor, and that the team will submit its proposal in the near future. On the premise of guaranteeing the interests of the local workers, we are not denying the possibility that the Hong Kong government will sooner or later import a limited amount of manpower on the basis of short-term contracts.

#### **Outlook for Macao's Refugee Immigrants Reviewed**

40050109 NAN PEI CHI [PERSPECTIVE] in *Chinese*  
No 221, 8 Oct 88 pp 43-46

[Article by Ch'un Po 2504 3134: "Exploration of Macao's 'New Immigrants' Problems"]

[Excerpts] [Passage omitted] The government of Hong Kong has made a decision about the question of Macao

residents who travel to Hong Kong for the purpose of visiting relatives or tourism, whereby all who established residence in Macao after 14 January 1979 are termed new immigrants. The government of Macao has disclosed that more than 120,000 new immigrants from the mainland applied for Macao residence after 1979. This includes more than 23,000 illegal immigrants who obtained legal status following a Macao government amnesty in 1982. (They first obtained a temporary identity card called a blue stripe identity card, which they exchanged one year later for a formal identity card). A large influx of new immigrants occurred during 1979 and 1980 when approximately more than 50,000 arrived, an average of more than 25,000 per year, or approximately 2,080 per month. To term this a tide of immigrants would be no exaggeration at all.

In 1927, Macao's population was only 157,000. In 1939, large numbers of people in search of a livelihood left the mainland in a steady stream to establish residence in Macao, causing a spurt in Macao's population to more than 245,000 for a 56 percent increase during a 12 year period, i.e., an increase of 88,000 people. Nevertheless, this could not compare with the number of immigrants during the closing years of the 1970's when the number of new arrivals during 1978 alone numbered more than 120,000 (exclusive of approximately 6,000 unregistered dependents), a number rarely seen in Macao's history.

The large influx of new immigrants created very great pressures on Macao society. In 1984, the Macao Peace Preservation Headquarters reached an agreement with the Kuangtung Provincial Department of Public Security whereby the 500 people per month approved for one-way "Hong Kong-Macao travel permits" who settled in Macao would be cut to 120 per month, a reduction of 380 people. However, since there was no way to apply this regulation to people from other provinces such as Fujian, during the early period of implementation of this agreement, new immigrants from the mainland settling in Macao still numbered more than 300 each month. It was not until after 1985 that the number of immigrants was controlled at the originally agreed upon figure. At a rate of 120 people entering Macao each month to establish residence, 1,440 people arrived in Macao from the mainland in the course of a year. During the period 1984 through 1988, 7,200 new immigrants arrived to settle. If the more than 120,000 who arrived after 1979 are included, Macao's new immigrants numbered more than 13,000, or 28.8 percent of Macao's total population of 450,000.

Following arrival in Macao, a fairly large number of the new immigrants lived in the poverty-stricken northwest sections of Macao such as Heishahuan, Mach'ang, Taishan, Ch'ingchou, and K'uaizuchi. Many people rented wooden huts and old multi-story buildings, or they lived in government low-rent housing. Some new immigrants also went to live on offshore islands. [passage omitted]

Though the immigrant tide has ebbed, a rough evaluation is still needed today.

The large influx of new immigrants created very great pressures on Macao society. For example, since Macao is a small place in which the labor market's capacity is limited, municipal government facilities and administration were unable to keep pace, etc. The former social equilibrium came under severe attack as evidenced in traffic congestion, crowded housing, and a drop in wages, as well as problems in childrens' education, environmental sanitation, and social order that caused dissatisfaction among local residents. The new immigrants faced hardships; they felt agitated; and they lacked both ties to each other and a willingness to make allowances; consequently, frictions occurred easily.

For Macao society, the influx of new immigrants was both a source of pressure and a source of dynamism: there were two sides to the coin. The arrival of the new immigrants increased Macao's precious manpower resources. They threw themselves into the building of the Macao economy, becoming a new force in industry, construction industries, business, culture, and educational endeavors, and bringing new vitality to the development of Macao's society. In recent years, the gross output value of Macao's industry has risen steadily. This has been accompanied by an expansion of foreign exports, booming markets, and a year-by-year increase in government financial revenues to which the new immigrants have devoted much effort.

Although some people in society feel that the large influx of new immigrants created very great pressures on Macao, no major problems occurred in Macao society. Despite the existence of some frictions between the new immigrants and local residents, generally speaking they continued to live harmoniously with each other. Most of the new immigrants were Cantonese having links to Hong Kong, Macao, and overseas. Their language, customs, and cultural traditions were also identical, or similar with no major differences. So long as they were industrious, observed the law, and worked hard, the new immigrants could live in peace. The local people used to hold a certain amount of prejudice against the new immigrants, but most of this has vanished. This is because it is generally recognized that the new immigrants have made many contributions, and have caused little damage.

However, the very great pressure on society caused by the large influx of new immigrants within a short period of time is a large lesson that should be learned. Since Macao is a part of China's territory, the government of Macao felt it had no alternative but to permit the entry of holders of Hong Kong-Macao travel permits, and it adopted a passive attitude of unconcern toward them. It was not until 1984 that the Macao authorities reached an agreement with the Department of Public Security of Kuangtung Province limiting the number of new immigrants from China entering Macao (120 per month), but

by then it was too late. The government did not adopt an active measure of responsibility for the employment or living problems of the new immigrants to Macao. Instead, it washed its hands of these problems, and let matters take their natural course. As a result, the new immigrant problem continued for many years. If, at the time, the government had actively guided the new immigrants in "doing in Rome as the Romans do," understanding the Macao social environment, opening avenues for employment, providing needed care in daily life, and doing all possible to reduce the pressure on society, the situation would not have been so serious. The government's inaction was attributable to not regarding the new immigrants as a source of precious manpower and putting it to use. Quite a few officials also had a discriminatory attitude that made it hard to put the problems of the new immigrants on the daily agenda. [passage omitted]

After eight or nine years of time, an overwhelming majority of the new immigrants have solved their employment and living problems, and have basically settled down. Internal readjustments within the society (such as the building of factories and the hiring of labor, improvement of transportation, the building of apartment buildings, expansion of schools, etc.) have gradually reduced the pressures on society and shaped a new social equilibrium. The influence of many factors has brought about new changes and development in Macao.

Most of the new immigrants have faced challenges during their hardships, and have braved a certain number of risks, struggling for survival in a strange environment. The experiences of this segment of their lives holds very great significance for them. They learned not only how to find employment and make a living, but, more important, they changed their former out-of-date concepts. For example, they got over their attitude of "eating out of a large common pot," correcting unrealistic and mistaken ideas that one could obtain something without working for it. They turned over a new leaf and adapted to the times. They came to understand self-respect, to stand on their own two feet, and to make their own decisions, to work hard to get ahead, to innovate, and to use their own two hands and intellect for personal gain and to serve the public. As a result of all kinds of setbacks and misfortunes, they also began to understand Macao realities, the way of life in a capitalist society, human relationships, legal and disciplinary problems, etc. They came to understand that in order to go on living in Macao for a long time, a mere change of appearance and new packaging would not do; they would have to become a social element that loved Macao and cared about Macao.

However, the Macao social environment is not yet ideal. For example, gaps exist in government administrative work. There are no real guarantees of work rights. Chinese mainland professional credentials are not recognized by the government. It is difficult to start and develop a business. The living conditions are poor, and

there are some other problems. In addition, the educational level of most of the new mainland immigrants is fairly low; they lack education in citizenship; they are influenced and bound by traditional concepts; and they have a poor civic consciousness. Furthermore, the impact of mainland Chinese political movements has caused them to feel cold and detached, and to have a psychology of being worldly wise but playing it safe. They are indifferent to events in society, and take little part in it. Consequently, though they have obtained employment and live in peace, they rush about all day long to make enough to get clothes to wear and food to eat, lacking any long-range plans. They lack sufficient confidence about their own futures, and they lack a full sense of belonging.

The new immigrants, who account for one-third of Macao's total population, constitute a social stratum, but for various objective and subjective reasons, they have yet to organize a social bloc or to form independent social organizations. Some of the more cultivated of them (intellectuals in cultural, educational, or news professions) are more concerned about Macao and their own futures, and they have entered social groups founded during the past two or three years to discuss Macao's problems in common with social luminaries, experts, scholars, and people in institutions of higher learning. They hope to use participation in some activities to express the aspirations and desires of the new immigrants, as well as their concern for social endeavors. By doing so, they hope to show that they possess a certain consciousness and dynamism, and that they are an important element in Macao society. The number of such people is very small, however, and a very low proportion of the new immigrants.

The main reason for the new immigrants' lack of a sense of belonging is their lack of sufficient confidence about their own futures. Some of the new immigrants that the writer contacted revealed the following state of mind. They see people in the industrial and business worlds as

having power and authority. The Legislative Council has several members who are industrial and business capitalists, who can talk with capitalists and obtain benefits. Furthermore, people in industrial and business circles have the confidence of both China and Portugal, so their interests are assured, and they are full of confidence about the future. Though middle class people lack power and money, they are well-off, and if they do not want to remain in Macao, they can invest and emigrate to make a living. The rights and interests of locally born Portuguese were explicitly provided for in the joint Sino-Portuguese declaration. When PRC Hong Kong and Macao Affairs Office Director Ji Pengfei [1213 7720 7378] visited Macao, he said explicitly that locally born Portuguese may participate in the Committee for Drafting Basic Law of Hongkong Special Administrative Region, thereby increasing the confidence of the Portuguese. During the transition period, the government of Macao will make provisions everywhere for locally born Portuguese so as to insure the interests of the Portuguese. As a result, the fears and apprehensions of the Portuguese about the future have largely disappeared. The new immigrants, however, are at the bottom of the social ladder, without authority or power. They have no representative of their own in the Legislative Council, and when they have something to say, they have to either depend on others or on news broadcasts to say it for them. They have to find jobs themselves and seek help from others for everything. When they face hardships in their daily lives, they have to get relief from others, and they are regarded as weak. Efforts to increase their economic income, improve their livelihood, and to live and work in peace and contentment are limited by the objective environment. Nor do they qualify to immigrate elsewhere, so they feel they have no way out. They find their own way in life and earn their own food, and they live or die according to their own efforts. They have virtually become a group that society has forgotten, so it is not strange that they have insufficient confidence about their own future, and lack a sense of belonging. [passage omitted]